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Politics this week

Apr 7th 2004
From The Economist print edition

Turmoil in Iraq

AFP

An **Iraqi Shia militia** loyal to a firebrand clergyman, Muqtada al-Sadr, staged uprisings in Baghdad, Basra and several towns in between, after its newspaper had been closed down by the Americans for incitement to violence and after one of Mr Sadr's aides had been arrested on a charge of murdering a rival cleric. The Americans responded by bombarding the strongholds of Mr Sadr's followers in the Baghdad slums, killing at least 43 people and losing at least eight dead themselves. A dozen American marines were killed in separate fighting in the “Sunni Triangle”. George Bush said his resolve in Iraq was “unshakeable”.

See article

Mediators said that the government of **Sudan** was close to a peace deal with rebels from the mostly non-Muslim south of the country. Meanwhile, in a separate civil war in the west, aid workers accused the government of ethnic cleansing on a huge scale.

Iran continued to spar with the United Nation's nuclear watchdog, the International Atomic Energy Agency. After five hours of talks with Iranian officials, the agency's head, Mohamed ElBaradei, said they had promised “welcome and positive steps” to reveal more about their nuclear programme.

Terror in Madrid

Up to six **Islamist terrorists** suspected of perpetrating the Madrid train bombings last month were killed in a suburb of Madrid after one of them set off a huge bomb as police were trying to break into their flat. One policeman also died and two or three suspects are thought to have escaped. A few days later, France arrested 13 terrorist suspects. British police said that they had foiled a possible poison-gas attack targeting the London Underground. Meanwhile, a German court released on bail a Moroccan man awaiting trial on charges of assisting the September 11th hijackers.

See article

Rolandas Paksas, the beleaguered president of **Lithuania**, was ousted after an impeachment vote in the country's parliament.

Elsewhere in central Europe, another right-wing populist, Vladimir Meciar, emerged as the likeliest winner of **Slovakia's** presidential election when the second round is held on April 17th.

See article

The European Commission issued warnings that four more European Union member countries—Britain, Greece, Italy and the Netherlands—might join France and Germany in breaching the budget-deficit ceiling of 3% of GDP laid down by the **stability pact**. Sanctions under the pact, which apply only to euro members (ie, not to Britain), have lost their force since the French and Germans flouted it last November.

Queen Elizabeth II visited France to mark the centenary of the **entente cordiale**, a 1904 treaty of Franco-British rapprochement.

See article

A good idea at the time

Colin Powell, America's secretary of state, acknowledged that the “most dramatic” part of his presentation to the UN in February 2003, making the case for the war with **Iraq**, was based on flawed intelligence. The evidence of mobile chemical-weapons laboratories, he said, had seemed “solid” at the time.

Ralph Nader, the “spoiler” Green Party candidate in the 2000 presidential election, failed in his first attempt to get on this year's ballot in Oregon. The state had given Mr Nader, who is now running as an independent, one of his highest levels of support.

A bill to extend **welfare-reform** provisions, enacted by the Clinton administration, was stalled in the Senate. Democrats, who blocked the provisions, want a separate amendment that increases the minimum wage.

Not free to choose

China's parliament ruled that Beijing had a veto over how Hong Kong selected its leader and legislature. The decision, seen as a move to control the territory's democratic aspirations, provoked angry reactions in Hong Kong.

See article

Indonesians went to the polls to elect new national and local legislatures. Presidential elections are scheduled for July.

AP

See article

After bilateral talks in February, **Pakistan** offered to discuss nuclear disarmament with India next month. The proposal is part of broader peace negotiations between the two countries.

In **Sri Lanka**, President Chandrika Kumaratunga, whose electoral alliance forms the largest block in parliament after elections on April 2nd, appointed a new prime minister, Mahinda Rajapakse. The president was at odds with the former prime minister over negotiations with the rebel Tamil Tigers.

See article

Uzbekistan's failure to make progress on human rights and economic reform prompted the European Bank for Reconstruction and Development to announce that it will restrict its operations in the central Asian country mainly to the private sector. Uzbekistan's authorities said the decision was unjust.

Zalmay Khalilzad, America's ambassador to Afghanistan, angered **Pakistan** by declaring that the United States could not allow “terrorist sanctuaries” in Pakistan to “fester indefinitely”. He added that America would solve the problem if Pakistan failed to do so.

A court in **Japan** ruled that controversial visits by the prime minister, Junichiro Koizumi, to the Yasukuni shrine to the war dead were unconstitutional. Mr Koizumi said he would continue his visits, which, the government said, he made as a “private citizen”.

Starting over

Colin Powell visited **Haiti** for talks with the country's new leaders. Gerard Latortue, the interim prime minister, pledged to hold a fresh presidential election. The former interior minister was arrested in relation to political killings.

A minister in **Venezuela's** government resigned, after a soldier injured in a fire at a barracks died. The opposition alleges that he and others were targeted for signing a referendum petition against the president.

Dozens of people were killed by floods in northern **Mexico**, in a town close to the American border, after unusually heavy rainfall.

EPA

Canada began to slaughter around 19m chickens, turkeys and ducks after an outbreak of **bird flu**. The cull is expected to take six to eight weeks.

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Business this week

Apr 7th 2004
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A desperate embrace?

Sun Microsystems' outspoken boss, Scott McNealy, once described the antitrust battle with the software giant as “mankind against Microsoft”. But the firm surprisingly agreed to stop the war and accept some $2 billion to resolve its acrimonious legal dispute with Microsoft over patents and unfair competition. Both agreed to make their equipment more compatible.

See article

The trial of the former boss of **Tyco International**, Dennis Kozlowski, and finance chief, Mark Swartz, for allegedly looting the conglomerate of $600m ended in a mistrial, after one juror had received a threatening letter. The elderly female juror, who apparently favoured acquittal, had been named by two American newspapers.

See article

Philip Morris settled a lawsuit launched by the European Commission accusing the tobacco giant of colluding with the smuggling of cigarettes into the EU. Philip Morris is expected to pay $1 billion which will help to finance efforts to curb smuggling and counterfeiting. R.J. Reynolds faces similar charges.

Nortel Networks said that it faced a formal probe of its accounts by America's Securities and Exchange Commission. The Canadian telecoms-equipment firm had previously said that it may need to revise its accounts back to 2000. Last month, it put two senior financial executives on paid leave.

News on the move

News Corp, a media firm led by Rupert Murdoch, said that it would move its primary stockmarket listing from Mr Murdoch's native Australia to America, his adopted homeland. It expects a New York listing to attract additional demand for its shares, giving access to cheaper capital.

Finland's **Nokia**, the world's leading mobile-phonemaker, warned that first-quarter sales would fall by 2% compared with last year; to $6.6 billion. Earlier it forecast 3-7% growth. Nokia's shares fell by 17%.

France's **Aventis** formally invited **Novartis**, a Swiss drugmaker, to enter merger talks. Aventis hopes to block a hostile bid from another French drug firm, Sanofi-Synthélabo, but Novartis is wary of entering the fray because France's government has indicated that it wants an all-French tie-up.

Qantas, Australia's leading airline, announced plans for a low-cost airline based in Singapore, whose government will partly finance the joint-venture. The government already has a stake in another no-frills carrier set to begin flying this year—Tiger Airways, backed by Singapore Airlines and Ireland's Tony Ryan, founder of Ryanair.

Kabel Deutschland, Germany's biggest cable-TV operator, rapidly consolidated the country's industry. It will pay *euro*2.7 billion ($3.3 billion) to acquire its three competitors.

J.C. Penney said that it would sell **Eckerd**, its chain of 2,800 drugstores, to a rival American drugstore group, **CVS**, and Canada's **Jean Coutou Group** for $4.5 billion. Penney hopes offloading the poorly performing operation will allow it to concentrate on reviving its other retailing businesses.

Footing the bill

Ernst Welteke, president of the once-mighty Bundesbank, faced calls for his resignation after it emerged that a German commercial bank had paid a hotel bill of *euro*7,600 ($9,200) that he ran up during celebrations of the introduction of the euro. Mr Welteke has now re-paid part of the bill, asked Germany's central bank to investigate his conduct and said that he might consider stepping down.

Bank of America completed its acquisition of **FleetBoston Financial** and announced that 12,500 jobs would go as a result, some 7% of the combined workforce.

Eliot Spitzer, New York's attorney-general, fired another shot at America's mutual-fund industry. **Theodore Sihpol**, formerly a low-level executive at Bank of America, was charged with 40 counts related to improper trading. Mr Sihpol said he would plead not guilty in a case that will test the legality of “late trading”.

Bouncing back

The **dollar** hit a four-month high against the euro and made gains against other currencies. Investors were cheered by figures showing a surprisingly rapid rate of job creation in America, an area that has hitherto not mirrored improvements in other parts of the economy.

Global trade grew by 4.5% in 2003 and could expand by up to 7.5% this year according to the WTO. Trade grew rapidly in the second half of 2003 after the effects of the war in Iraq and SARS wore off and the results of the recovering world economy began to show. The WTO called China's performance “remarkable”—imports grew by 40% and exports by 35%.

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Iraq

The challenge in Iraq

Apr 7th 2004
From The Economist print edition

It was one of the worst weeks so far. But it would still be wrong to write Iraq off

Reuters

Get article background

PLAINLY, it is bad. For the first time in more than a year of occupation, the Americans find themselves in armed conflict with a well-organised militia of Shias, the 60% or so of Iraqis who were repressed especially brutally by Saddam Hussein and had hitherto seemed willing if not entirely happy to co-operate with his removers. If this fight continues or spreads, the Americans and their allies will indeed, as all the pundits say, be facing an insurgency on two fronts. Having failed to subdue the minority Sunnis, some of whom have spent many months in open rebellion in the so-called “Sunni Triangle” west of the capital, the occupiers would also have to contend with a Shia uprising in Baghdad and in the south (see article). This is a grim prospect. But does it amount, as Senator Edward Kennedy says, to “George Bush's Vietnam”? And is Iraq on the brink of a “civil war”? Not yet, on both scores.

Brute force versus the people's will

The United States spent a decade in Vietnam and lost some 50,000 soldiers. The conquest and occupation of Iraq have so far claimed just over 600 Americans. Although this was a bloody spell—eight American soldiers were killed in the fight at the start of the week against Muqtada al-Sadr's Shia militia, then a dozen more in fighting with Sunnis—the rate at which Americans have been dying has nevertheless dropped since November. Nor is it just the discrepancy in the numbers that makes the Vietnam analogy misleading. Vietnam has come to symbolise the futility of expecting brute force to prop up a foreign regime that is not supported by its own people. Just conceivably, this could still happen in Iraq if the Americans are foolish enough to create an Iraqi government so unpopular that it can enforce its will only at the point of an American gun. But that is neither what the Americans plan to do, nor—probably—what they will be forced to do.

Over the past year, Paul Bremer, Iraq's American administrator, has changed his plans so many times that Iraqis themselves, let alone spectators from afar, can be forgiven for being confused about what the Americans are currently proposing. This lack of clarity is one of the many failures of the occupation so far. However, the point to remember is that under the present plan Iraq is heading in the reasonably near future for a series of elections. The first, to elect a National Assembly, must take place no later than the end of January 2005. This body is supposed to write a constitution and submit it to a referendum no

later than mid-October of that year. By mid-December, a government is to be elected under the new constitution.

Once the Iraqis have elected their own government, the danger of replaying Vietnam in the sands of Iraq should recede. Even if such a government were later to prove deadlocked or unstable, its emergence would permit an honourable enough American exit. That is to say, a President Bush or Kerry could in conscience declare at such a point that America had given Iraq its democratic opportunity and summon the troops back home. So in practical terms, the question of whether the Americans can “succeed” in Iraq boils down to this. Is America willing and able to hold the ring for the year and a half or so until that election takes place?

The honest answer is that success is not certain. It is all too easy after this nerve-jangling week to imagine a sequence of events in which the occupiers become so unpopular that the coalition forces are compelled to quit early, leaving Iraqis to sort or fight things out for themselves. Even if matters do not reach that pass, the violence might swell to a level that prevents the holding of a fair election on the Americans' timetable. The uncertainty, however, cuts both ways; if success is not certain, failure is not guaranteed either. Many a country awash in violence has nonetheless managed the transition to democracy. South Africa, which is celebrating ten years of it this week, was in the early 1990s embroiled in a vicious three-cornered struggle between whites, Zulus and Xhosas. And if you look carefully at Iraq, there are still reasons for optimism.

One is that Iraq is not yet gripped by anything that can be properly described as a civil war. It may be scant comfort for the Americans, but it is their troops rather than fellow Iraqis who have become the target of choice for the country's insurgents. This is something of a surprise. Before last year's invasion, the fear of many outsiders was that an Iraq freed from Saddam's iron fist would splinter three ways as Kurds, Sunnis and Shias battled each other for independence (in the case of the Kurds) or supremacy (in the case of the Sunnis and Shias). For the time being, however, Iraqis have stubbornly resisted the expected trifurcation. Not even the terrible bombings during the Ashoura festival last month, which killed some 200 Shias, succeeded in provoking the anti-Sunni backlash the perpetrators were presumably hoping for.

The spiritual leader and the upstart

Calculation rather than docility explains this forbearance. Many Iraqis appear to believe that a peaceful transition to democracy serves their own interests. Despite loose talk of Iraq falling into anarchy, polls suggest that most Iraqis think that their lot has improved since the fall of the dictator, and will continue to improve. This expectation of better times to come is a precious asset that Mr Bremer must not squander as the transition unfolds. Another is the belief of the Shias, guided by their spiritual leader Grand Ayatollah Ali Sistani, that as the majority they have much to gain from democracy. Until this month, Mr Bremer had made a great point of keeping Mr Sistani reasonably happy: it was at the ayatollah's behest that America dropped its plan to use caucuses to select a constitution-writing body and proposed a direct election instead.

Now the challenge for Mr Bremer is to find a way to ensure that his broad alliance with the Shias survives this week's clashes with the militia commanded by Mr Sadr. Having missed earlier opportunities either to co-opt this firebrand or to smack him down, the Americans have pronounced him an “outlaw” to be arrested. Perhaps this was necessary for the coalition to save face in the teeth of Mr Sadr's provocation and incitement, but it still entails taking a risk. Though the young Mr Sadr is a junior cleric compared with the revered Mr Sistani, the latter has no divisions whereas the former commands a disciplined militia that has flexed its muscles from Baghdad to Basra. And though in private Mr Sistani doubtless considers Mr Sadr a reckless upstart, not even Mr Sistani will take America's side if Mr Bremer's troops kill too many Shias when they take the upstart on. Like many a proconsul before him, Mr Bremer faces the delicate task, more political art than political science, of showing just enough toughness to command respect, while refraining from actions that turn more hearts and minds against him.

Part of the same calculation is whether to let the latest violence derail the plan to hand over power before the end of June to an interim Iraqi administration that is likely to emerge from the existing American-appointed Governing Council. On the evidence so far, Mr Bush's declared intention to stick to the deadline is right. America has chopped and changed its plans often enough. To do so again simply because of a new spurt of violence would look indecisive and weak, even though this vaunted transfer of power will be a pretty notional affair. The occupying authority intends to dissolve itself, and the American presence will shrink to an embassy. But it will be an embassy like no other, pretending to defer to Iraq's

interim government while issuing orders to America's occupying army and therefore still calling most of the shots.

It is this period—after the birth of an interim government and before proper elections—that is likely to be the decisive one for Iraq. Though largely a creature of the Americans, the interim government will include representatives of most of the country's sects and political movements. It has the potential to earn respect, prepare the ground for elections and make the occupation feel less like an occupation. Only if it fails, and has to depend increasingly on American firepower to impose its authority, will Iraq really begin to resemble Vietnam.

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South Africa

A decade of freedom

Apr 7th 2004
From The Economist print edition

At ten years old, South African democracy is healthy but immature

AFP

DEMOCRACY makes politicians act humble, which is no bad thing. As South Africa gears up for its third properly democratic election on April 14th, the customarily aloof President Thabo Mbeki has been photographed sitting on the floor of a humble township home, yielding the chairs to its elderly inhabitants. Though African tradition demands respect for the old, it is hard to imagine, say, Zimbabwe's president, Robert Mugabe, making a similar gesture. Then again, it is hard to imagine Mr Mugabe mingling with commoners without much heavier security than Mr Mbeki needs. Despite his aloofness, South Africa's president is genuinely popular, as is his party, the African National Congress (ANC), which has ruled South Africa since apartheid ended in 1994.

The ANC is expected to win some two-thirds of the vote, far more than any rival party, so Mr Mbeki is assured of a second five-year term. His party's popularity stems partly from its history as a liberation movement, and partly from its record in office. Its achievements have been striking. It negotiated a peaceful end to white rule, thus averting a possible civil war. It ditched its early Marxist principles, thus averting an economic collapse when it took power. South Africa is now much freer and happier than it was a decade ago (see article). Blacks are no longer second-class citizens, and whites have not been subject to reprisals. The benign influence of the country's first black president, Nelson Mandela, is still felt.

To hear the parties campaign, however, you might think it otherwise. Opposition leaders accuse the ANC of seeking to impose a one-party state by stealth. The ANC accuses its white opponents of racism, and its black opponents of plotting to murder its campaign staff. All these charges are exaggerated. Political violence is now rare, as is overt racism, at least among public figures. South Africa is not a one-party state, either, but the ANC's barely challenged dominance does raise questions about the long-term prospects for the country's democracy.

The party has no serious rivals, and is unlikely to lose office for years. Fair enough, if that is what most voters want. But the ANC shows a worrying tendency to value loyalty to the party above that to the state, or to the concept of democracy. That makes some South Africans nervous, and should make many more. A few countries where the same party has ruled for decades have stayed free and prospered: Japan, for example, and Botswana. But the contrary is more common. When a single party controls power and patronage, those who enter politics for personal gain will gravitate towards that party. A lack of electoral competition breeds corruption and stifles criticism.

The ANC is far from having deteriorated into a patronage machine of the sort that has wrecked so many other African countries. For one thing, it faces more checks and balances: South Africa's newspapers are free, its pressure-groups energetic and its courts independent. When judges rule a policy unconstitutional (as they have done with some of the less-generous aspects of Mr Mbeki's AIDS-treatment and housing policies), the government backs down. Mr Mbeki knows he needs to weed out corruption before it takes root: even his vice-president, Jacob Zuma, has come under investigation.

The long walk to prosperity

The trouble is, the easiest way to turn power into money in South Africa is perfectly legal. Mr Mbeki is trying to create, almost from scratch, a black business class. He believes that the quickest method is to lean on white-owned firms to transfer chunks of their operations to black owners. The beneficiaries have often been top ANC figures or their relatives. Ordinary black South Africans, in whose name “black empowerment” is promoted, have not benefited. Quite the reverse: the process deters investment (though it is taboo to say so in South Africa), and thereby retards the economic growth that might make the poor less so. As they celebrate ten years of freedom, South Africans might reflect that the “better life for all” that the ANC once promised can only come gradually.

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China and Hong Kong

The dragon puts its foot down

Apr 7th 2004
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China has passed up a golden opportunity to let Hong Kong democratise

AFP

Get article background

POOR, naive Hong Kong. It had always assumed that its Basic Law—the mini-constitution that has governed the Special Administrative Region since Britain relinquished its colony in 1997—was something to which China had committed itself. It might be flawed, it might contain rather too many grey areas and it certainly fell far short of what Hong Kong's progressives had wanted. But at least China could hardly, having written the wretched thing, turn around and flatly defy it.

China has now done just that. The latest battleground between the central government and its increasingly rebellious southern prize is nothing less than democracy itself: the selection of Hong Kong's chief executive, and of its parliament, the Legislative Council (Legco). At the moment, only 40% of Legco's members are elected: almost all the rest are selected by “functional constituencies” that over-represent business and other pro-China interests. This system, of which Governor Elbridge Gerry (he of mandering fame) would be proud, was always meant to be temporary. The Basic Law specifies only the method to be used for the first three Legco terms after 1997, that is, until 2008. So well before then a decision had to be taken about the system to use thereafter. The mechanism for choosing the post-2007 chief executive was also up for review. At present, he is selected by a committee appointed by China.

This is where things get tricky. China was badly rattled by the demonstrations in Hong Kong last July, when half a million people took to the streets to denounce its plans to impose an anti-subversion law on Hong Kong, and forced its hapless chief executive, Tung Chee-hwa, to back down.

So, more or less out of the blue, a session of China's own rubber-stamp parliament, the National People's Congress (NPC), declared on April 6th that any attempt to alter the existing arrangements would need China's prior consent. This seems to fly in the face of the constitution. Although the NPC has a final power of veto over any change in the system for choosing the chief executive, the procedure for selecting Legco is different. Under the Basic Law, it is up to Legco itself to decide on the new rules for choosing its members, though these rules must be endorsed by the chief executive. China's NPC is merely to be informed, for the record. This week's announcement thus looks like the clumsiest of attempts to withdraw a right that belongs to Hong Kong and a clear violation of the guiding principle of “one country, two systems”.

One Communist Party, one mindset

It is hard to find anything cheerful in this. Though political reform has never been a priority for China's new leadership, the prospect of any early liberalisation seems to be receding fast. If a small step towards democracy in the one outpost that has always been “different” is too dangerous to contemplate, what hope is there of political reform in the rest of China?

Even more depressing has been the leadership's reaction to events in Taiwan, where the independence-minded president, Chen Shui-bian, is seeing his narrow victory in the recent election contested by the opposition. China mutters darkly about chaos and declares it may take action to quell it, like a neanderthal fingering his club. Taiwan is indeed going through a period of uncertainty. A controversial result has been followed by harsh words, peaceful demonstrations and appeals to the courts. But this is not chaos, it is democracy. Too bad that China seems so frightened of it.

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British politics

They want their say

Apr 7th 2004
From The Economist print edition

Why dumping Tony Blair's reform agenda would be dangerous for Labour

TONY BLAIR'S government finds itself periodically embroiled in huge rows with its MPs over apparently quite small adjustments to the way the public sector is run. The one a fortnight ago, over university finance, centred on the question of whether or not there might be variations (below a very low ceiling) in the size of fees which universities (the vast bulk of whose costs will still be paid by the state) could charge students. The previous big one was about whether some NHS hospitals should be allowed modest administrative independence from the Department of Health.

These battles are fought over such small areas of dismal bureaucratic territory most people wonder why they should care much about them, yet they are linked by big general principles. The most important is consumer choice, which Mr Blair believes is both a good in itself and a means of chivvying under-performing services to do better.

Frustrated or baffled?

But do people really want choice? The view that they do not is gaining ground in the Labour Party. What voters want, say Mr Blair's opponents, is not choice but uniform delivery of decent services. Too much choice confuses and upsets the public. What the public services needed, they maintain, was money, and Gordon Brown, the chancellor, has produced plenty of that. So why does the government bang on about choice?

Some convenient intellectual backing for this view has recently come along, in the form of “The Paradox of Choice”, a book by Barry Schwartz, who, being an American and a social psychologist, ought to know a thing or two about how miserable choice makes people. Mr Schwartz divides the population into “maximisers” and “satisficers”. The maximisers are the wrong-headed types who go round wilfully making unnecessary choices—by, for instance, moving their investments around. They are constantly aware that there might be something better just round the corner, and so they are constantly dissatisfied with what they have. The satisficers are the sensible folk who, even if they do not like their lot, are prepared to lump it. “Mustn't grumble,” they chirp, dispatching their children to the local sink school as they while away the hours in a doctor's germ-filled waiting room.

Unfortunately for Mr Blair's critics, the British public has not yet absorbed Mr Schwartz's message.

Wrong-headed they may be, but, according to a poll carried out by YouGov for *The Economist* (see article), they do want choice in their public services as well as their clothes, computers and food. What's more, they want choice not just for its own sake—66% say choice of hospitals is very or fairly important to them, 76% of parents with children at state schools say the same—but also because they think it will make public services better. Unlike much of the Labour Party, most voters do not regard pouring still more money into the health service as the best way of improving it. While 37% of respondents said it needed more money, 50% said what it needed most of all was reform to give patients more control over their treatment.

Since the Iraq invasion, the number of Labour MPs who would like to ditch Mr Blair and all he stands for has grown. If they did, they might not like the results. A poll is just a poll, and sensible politicians do not take them too seriously. But it may be that Britons are not quite as happy to lump their lots as many on the Labour left would like to think.

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Oil accounting

Needlessly murky

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Rules on how oil companies book reserves need to be modernised

IS THE continuing crisis at Royal Dutch/Shell a sign of a broader problem in the oil industry? In January, Shell declared that it would reduce its “proved” oil and gas reserves by a remarkable one-fifth. Investors howled, and its chairman was sacked. America's Securities and Exchange Commission is now investigating the matter.

Whatever the SEC finds, this fiasco is already beaming a spotlight on the oil industry's murky accounting practices. In the weeks since Shell's initial announcement, BP, El Paso and several other energy firms have also announced revisions of reserves. Evidence has also surfaced suggesting that companies sharing the same oil field may be booking radically different percentages of their holdings as proved reserves.

One innocent explanation for such discrepancies is geology. Booking reserves is not a clear-cut matter. Every oil field is different, and indeed even individual fields are far from homogeneous. The SEC acknowledges this, and allows firms some discretion in booking reserves. However, that points to a less-innocent explanation. There are three weaknesses in the SEC's rules on booking reserves which create confusion, encourage inconsistent reporting and needlessly give firms the room to make mischief.

First, these 25-year-old rules ignore advances in energy technology and markets. Over the past decade, it has become industry practice to use advanced, computer-based imaging techniques to measure new reservoirs. This is especially true in deep-water areas, where drilling lots of test wells would be prohibitively expensive. The SEC rules, however, do not allow firms to book reserves using these modern approaches. In terms of markets, the SEC says that remote gas can be booked as proved only if transportation and customers are established. But the liberalisation of energy markets has created spot trading, so cargoes of liquefied natural gas no longer need to be covered by a long-term sales contract to have commercial value. In both these areas, the rules must be modernised.

Second, the SEC rules focus too much on short-term measures of performance. The agency insists that firms may book hydrocarbons as proved only if they will get to market quickly. That sounds prudent, but in fact is too narrow a view. The industry's standard measure of a firm's commercial prospects is proved plus “probable” (known hydrocarbons likely to get to market over time). Such “2P” booking is the norm in Canada and Australia—and it should be in the United States as well.

A related problem is the SEC's insistence that firms reassess the commercial viability of reserves annually using current oil prices. When prices collapsed in 1998 to about $12 per barrel, the industry was forced to take a billion barrels of oil and gas off its books, despite the fact that those reserves were still likely to come to market when prices rebounded. Now, with two years of high oil prices, some energy firms are no doubt zealously booking reserves—perhaps to take them off the books when oil prices drop again in future. A better approach would be to use a rolling average of oil prices over many years.

The power of sunshine

Finally, the SEC rules do too little to encourage scrutiny of management. The agency itself is ill-equipped to perform any proper monitoring. Its small geological staff should be beefed up with experts on modern technology, and should perform more audits and spot-checks. It should also push the industry to agree common global standards for reserves.

In the end, though, even the most brilliant regulations would not guarantee accurate disclosures or

prevent Shell-style fiascos. That is why the boldest reform required now is for the SEC to demand that all energy firms whose shares are traded in America have their reserves reviewed by independent auditors. Ironically, oil firms from Russia, India and China have already done this to bolster their own credibility. Now, humbling though it will be, big western oil firms should do the same to win back the confidence of investors.

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Letters

Apr 7th 2004
From The Economist print edition

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Taiwan's failing democracy

SIR – Your article on Taiwan's recent chaotic election fails to capture the danger of the situation ("Independence day?", March 27th). It is wishful thinking by many western observers that Taiwan has a truly functioning democracy. Political corruption and financial scandal are rampant. During the recent presidential campaign both sides showed how issues like the economy and welfare are easily hijacked by political opportunists to further their own agenda.

Instead of building a political system that holds the government to account, democracy in Taiwan is often used to advance one ethnic group over another. Not only has the strait between mainland China and Taiwan widened over the past decade, but the tension between different Taiwanese ethnic groups has intensified. Taiwan is polarised and political irrationality often interferes with economic and social development. If this continues, Taiwan will not serve as a lighthouse of democracy but will become the Northern Ireland of Asia.

Ruiqi Ma
Redlands, California

A bridge too far?

SIR – I am writing to clarify some issues raised in your article on Mongolia ("Bridge to nowhere", January 31st). Mongolians share the sincere affection for the natural beauty of the Eastern Steppe that you express, and precisely for that reason it has been designated as a special protected area. From ancient times, Mongolian nomads derived their livelihood from mother nature and veneration for the environment is deeply rooted in our culture and history. Protected areas were initiated in Mongolia as far back as the 13th century during the era of Genghis Khan.

The Khalkha and Nomrog region is a rare ecosystem. No part of the Nomrog special protected area is included in the government's recent proposal to degazette some protected land. The planned bridge at Nomrog has nothing to do with the transportation of minerals to foreign markets. Independent analysts have stated that it is best suited for eco-tourism and light traffic. The Ministry of Nature and Environment supports this. A detailed environmental-impact assessment sorted out adverse impacts and defined mitigation measures. The government accepted those conclusions and decided to build the bridge for exactly the above-mentioned purposes. The bridge is not designed to carry heavy trucks filled with minerals. It is worth noting that a final decision to build the bridge has not been made.

The bridge and the government's rural road-development project will connect remote, underdeveloped regions of eastern Mongolia to the country's urban centres and north-east Asia. Can you show me anywhere in the industrialised world where development took place without the construction of roads?

Ya Adiya
Secretary of state
Ministry for Nature and Environment
Ulan Bator

Equitable Life goes on

SIR – You wrongly assert that insolvency “befell” Equitable Life once it closed to new business in 2000 (“The end of mutuality?”, April 3rd). For the record, Equitable Life has never been insolvent and more than satisfies the capital requirements of the Financial Services Authority. Indeed, it is in better shape today than at any time in recent years.

Vanni Treves
Chairman
Equitable Life
London

The costs of oil

SIR – It is true that we argue in our book, “The Oil Factor”, that oil will reach $100 a barrel by the end of the decade but we say that the economic impact will depend entirely on whether the price rise is gradual or abrupt (“Not so bad”, March 20th). If prices spike by 80% or more in a single year, a severe recession is indeed likely. A more gradual rise will lead to inflation.

Also, you dismiss the possibility that rising oil prices will be severe enough to have an impact on world economies. It is worth noting that oil prices have risen by more than three-fold from their 1999 lows and that once energy prices reach about 10% of total economic output in an economy, further price increases suddenly start to make a tremendous difference in overall inflationary trends.

Stephen Leeb
Donna Leeb
New York

“No” means no

SIR – If Lexington wants to endorse John Kerry for president, please can he do so openly (March 27th). I will not agree but I will respect his honesty. Instead, Lexington tries to explain away Mr Kerry's contradictory voting record. On the $87 billion military and development bill, he voted “no”. There is no ambiguity nor any reason to think that some other vote might record a true preference. That Mr Kerry voted for an amendment to the bill previously is of no importance whatever, especially in the Senate where there is no rule that amendments must be germane. More to the point, “improve it to death” (by amendment) is a well-known legislative tactic to defeat a measure one does not like. It sounds like Mr Kerry was using this strategy.

R.L. Promboin
Vienna, Virginia

Unconstitutional

SIR – You say that if Britain had a Supreme Court and a written constitution, a move to restrict the judiciary's jurisdiction over asylum cases by statute “would undoubtedly be declared unconstitutional” (“Labour's constitutional mess”, March 13th). Surely the constitutionality of an act of Parliament would depend upon the actual terms of the constitution in question. Your obvious presumption that British Supreme Court judges will overrule Parliament, without regard to the actual terms of a written British constitution, is an excellent illustration of the rational basis for Labour's reluctance to restrict parliamentary supremacy through further constitutional change. The coincidental fact that Labour is now politically ascendant is a far less compelling explanation.

Labour's trepidation, and the great weight of Tory fears about giving an unelected judiciary the power to overrule acts of Parliament, is simply a reflection of Britain's long embrace of democracy. In the United States, we are currently engaged in a great political struggle over the proper role of unelected judges in our democracy. Britain should be extraordinarily careful about eroding the fundamentally democratic nature of its existing constitution in the hope that unelected judges will prove to be better policymakers than duly elected members of Parliament.

C. Mark Pickrell
Nashville

Holy cow!

SIR – I was astounded to read in Silvio Borner's letter that Switzerland “spends taxpayers' money on cows and school children at a ratio of one to three” (March 20th). But then I quickly read a convincing explanation in Steve Held's letter describing the Swiss trait of “an innate and unquestioning tendency to identify with their country's institutions and sacred cows.”

Ed Canler
Chattanooga, Tennessee

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Christians and Jews

The season of the lambs

Apr 7th 2004
From The Economist print edition

Bridgeman

Christians are trying to analyse their responsibility for anti-Jewish prejudice, and to examine their own faith's Jewish roots

Get article background

FOR the Judeo-Christian world, this is the week. For Jews, celebrations of Passover or *Pesach*—recalling the children of Israel's escape from Egyptian bondage—reach their central moment. Over a family meal, millions of households have remembered the lamb's blood which the Jews in Egypt daubed on their doors to escape the angel of death. All over the Christian world (this is one of those years when the western and eastern halves of Christendom celebrate on the same date), the story of Easter or *Pascha*, which draws deeply on Passover symbols, is being relived. As people hail the resurrected Jesus Christ, they rejoice in their own redemption “with the precious blood of Christ, as of a lamb without blemish”. Thus, in many corners of the world, there is talk of lambs being slain, either literally, or as a metaphor for God incarnate.

For many centuries, the Christians' season of hope was a time of fear in Jewish ghettos, as religious fervour spilled over in murderous anti-Semitic violence. Now, though the demon of anti-Semitism is far from dead—and is on the rise in certain parts—the sort of anti-Jewish sentiments that were directly inspired by Christian preaching are a thing of the past in most areas of the historically Christian world. This has been largely brought about by the deep and searching dialogue between leaders of the Christian and Jewish faiths, as both traditions struggle to make some spiritual sense of the unspeakable horrors of the Nazi death camps.

A token of the new Jewish-Christian understanding is the passage into common, unselfconscious use of the term Judeo-Christian to describe the religious heritage of the western world. Even now, admittedly, the word is not problem-free. Colin Powell, America's secretary of state, stumbled into a controversy last autumn when he said of Iraq that it was “an Islamic country by faith, just as we are Judeo-Christian”. Out of deference to Americans of other religions or none, Mr Powell quickly corrected himself, saying “we are a country of many faiths now”.

American Muslims nonetheless protested strongly, pointing out that in certain ways—in particular, its reverence for Jesus and Mary—Islam is closer to Christianity than Judaism is. They urged that some new, more inclusive term (Abrahamic, perhaps) be found to describe the commonality between all three

monotheistic faiths.

But Mr Powell's use of the term does reflect something real in recent religious history. Over the past half-century, Christians have tried harder than at any time in the previous two millennia to analyse their own faith's responsibility for anti-Jewish prejudice and violence; and to look at their own faith's Jewish roots.

According to Mark Silk, an American scholar who has studied the Judeo-Christian concept in political parlance, the term has always had a rhetorical purpose. Its first use as a sort of political slogan was by President Dwight Eisenhower, in 1952, in a clarion call for a long war against Soviet communism. “Our form of government has no sense unless it is founded in a deeply felt religious faith, and I don't care what it is.With us of course, it is the Judeo-Christian concept...”

A word of many meanings

As Mr Silk shows, this was not the first meaning of the term. It had come into currency before, and during, the second world war, to imply a tolerant kind of Christianity, and to eschew the Christian anti-Semitism that had a following among Roman Catholics in the 1930s.

Much later, in the cold war's final phase, the term Judeo-Christian was sometimes used as a counterpoint to secular humanism. Even more recently, it has been used in contrast to—though not necessarily in hostility towards—Islam. What the term seems to imply is that Judaism and Christianity are slight variations on a single theme; that they are natural allies over many moral and political issues; and that the differences between them are not all that significant.

Is that an accurate statement of the point which Jewish-Christian relations have reached? It is certainly true that relations between the main Christian denominations and the Jews have broken entirely new ground over the past half-century.

Wrestling with the Holocaust

Pope John Paul II has been described as the most pro-Jewish pontiff in history. He has prayed at the Western Wall in Jerusalem; spoken of the Jews as “elder brothers” of the Christians; and, earlier this year, he received Israel's chief rabbis at the Vatican. Under his guidance, the Catholic Church has wrestled harder than before—though not as hard as some Jews would like to see—with its own legacy of anti-Semitic pronouncements and behaviour.

One American Catholic and former priest has gone much further than his Church. In his bestselling book “Constantine's Sword”, James Carroll writes of his own agonised reflections on the Holocaust and the Church's legacy. He concludes by agreeing with the severest critics of the Church: anti-Semitism was not a distortion of the Church's mission, but was central to it. It was not a contributory factor in preparing the way for the Holocaust; it was a decisive factor.

Meanwhile German Protestant theologians have questioned and in some cases rejected the whole principle of “supercession”: the idea that the coming of Christ marks a new covenant between God and mankind as a whole which supercedes, and renders irrelevant, the older covenant between God and the Jewish people.

In this Protestant world, a concept called “theology after Auschwitz” has been pioneered by a German philosopher, Jürgen Moltmann. He has argued that the Jewish rejection of, and Christian acceptance of, Jesus as the Messiah—the promised Saviour—are at some level compatible. For many followers of either faith, that may be a step too far; but there is moral power in Mr Moltmann's assertion that Christians and Jews will never really meet one another until Christians have experienced mass persecution comparable to the Holocaust.

It is certainly true that even when both sides are being at their most conciliatory, Jewish and Christian responses to the Holocaust have not been the same. Roman Catholic pronouncements on the subject blame the “paganism” of Nazi ideology, which was inimical to all religions; and they stress the role played by some Christians in saving or protecting Jews, while acknowledging that many Christians were negligent or much worse.

Jewish readings of the Holocaust see a direct link between Christian anti-Semitism and the crimes of the Nazis. Jews acknowledge the role of “righteous gentiles” in mitigating the horrors, but these are treated as subsidiary facts only. Stories of gentile courage render Christian-Jewish dialogue possible, but do not make it easy.

Indeed, thorny new questions have risen since 1945. Among many Christians who have gone at least halfway towards withdrawing claims of “supercession”, there is often deep unhappiness over the policies of Israel. This is in part because the main Christian denominations have Palestinian adherents who have suffered dreadfully during the conflict.

Israel's curious friends

Fundamentalist right-wing American Christians, such as Pat Robertson and Jerry Falwell, do still believe in supercession. They insist strongly that people must make a commitment to Jesus Christ in order to gain salvation and avoid damnation. Yet these Christians are not simply pro-Israel; they identify with the toughest parts of the Israeli spectrum. Last December, Mr Robertson used a speech in Israel to denounce the principle of a Palestinian state. Calling Israel's military prowess a “miracle of God”, he told his hosts they would be letting the side down if they succumbed to the principle of land for peace.

Such talk enrages Palestinian Christians, who feel that compared with other faiths in the region—Jews and Muslims—they receive very little moral support from their co-religionists.

At the same time, the American right's strident Zionism is based on some fundamentalist beliefs that are hardly reassuring to followers of Judaism. They believe that the return of the Jewish people to their historic homeland brings closer the “end time” when Jews will either accept Christ as the price of being saved or face eternal damnation.

Are those the sort of Christians that religiously observant Jews would want as friends? Within the world of reform Judaism in particular, this poses a dilemma: the Christian right may be Israel's loudest backer, but its social agenda—along with its beliefs about the end times—are unattractive, to put it mildly, to liberal Jews.

Even so, in Israel itself the American Christian right is accepted as a badly needed ally. And the American right has been galvanised by the sense that the threat of terrorism facing Israelis and Americans alike is part of a broader, cosmic struggle. “In this world, theology and politics perpetually reinforce one another,” says Victoria Clark, a writer on Christianity in Jerusalem.

Apart from the curious crossovers between religion and politics, there are some tricky spiritual and theological issues which have arisen as a direct result of the post-1945 encounters between Jews and Christians. Judaism and Christianity are not discrete, coherent systems that can nod respectfully at one another and say “you do your thing and I'll do mine.” So closely intermingled are the histories of the two faiths that neither can really understand itself without entering deeply into the internal debates of the other.

According to Alan Segal, an American Jewish scholar at Columbia's Barnard College who has published nearly a dozen books on Christianity, “Christians talk a lot about Judaism but they often don't know much about it. Meanwhile Jews don't talk much about Christianity, but their own categories of thought and presentation have been influenced more than they realise by centuries of living in mainly Christian societies.”

Quarrelsome cousins

What is it, then, that Christians fail to realise about the nature of their own Jewish antecedents? One way of putting it would be this: Judaism and Christianity are not so much parent and child, or even siblings, as some romantic formulations would suggest; they are more like quarrelsome cousins with some very different readings of family history.

By the end of the first Christian century, as people responded to the trauma of the Jewish Temple's destruction by the Romans, there were at least two new forms of religious practice in Roman Palestine: Christianity and rabbinical Judaism. The latter was a relatively simple form of Jewish worship which

placed emphasis on ethics and law, and dispensed with the need for a hereditary caste of priests.

AP

Have you heard the one about...?

It is from rabbinical Judaism that modern Jewish practice descends. On the other hand, the imagery used by Christians, whether they realise it or not, is steeped in the world of the Jewish Temple.

Scholars like Mr Segal, and Britain's Margaret Barker, have shown that many teachings of Paul, who fashioned Christianity into a world religion, can hardly be understood without reference to Temple mysticism. This applies to Paul's account of his own transcendental experiences; to his teaching on resurrection to eternal life, as a state of being which is “bodily” but quite different from ordinary physical life; and above all, to his description of Jesus as the “great high priest” whose self-sacrifice transcends all others.

Thus, while Christian teaching draws deeply on the mysticism in the religion of Israel, the modern expression of Judaism has been influenced by patterns of thought which come from the secular or post-Christian West.

Then there is the problem over texts. It is a commonplace of Jewish-Christian dialogue that both have a common root in the Hebrew Scriptures which Christians call the Old Testament. But in the early Christian centuries, there were furious arguments between Christians and Jews over the precise wording of Hebrew texts, with each side accusing the other of doctoring manuscripts to suit its own case.

Jews accused Christians of adding “Christian-friendly” references to ancient texts, while Christians complained that Jews were removing such references. Those arguments were reopened by the Dead Sea Scrolls, whose discovery 50 years ago provided a huge body of evidence on the history of monotheism.

In some ways, the scrolls have blurred the contours of Jewish-Christian discussion. Simply put, the new finds have shown, more clearly than before, the diversity and range of beliefs and practices in the Jewish world of 2,000 years ago. Jesus and his followers were by no means the only people who questioned the worthiness of the high priests who were guarding the Jewish Temple; nor were they the only people who sought a more authentic form of communion with God by retreating into the desert for asceticism and prayer.

So whatever was happening in Roman Palestine at the time of Christ, it was not a simple two-way contest between Jesus and the Jewish religious authorities; there were plenty of other people, then and before, who looked to the Temple as the ultimate source of holiness, but felt that its present incumbents were unworthy.

So much the better, one might think, for Jewish-Christian dialogue: it might even be argued that the two faiths were points on a spectrum rather than opposite poles. But there are still hard questions for anyone who takes the Hebrew Scriptures seriously. Jesus pronounced that all the law and prophets were fulfilled in his person; that is either an offensive piece of blasphemy or one of the most important statements ever made.

None of this matters at all to those who, like Eisenhower, “don't care” about the content of religions but do care about their moral effect: in other words their ability to galvanise Jews, Christians and other decent people against a common enemy (whoever that might be) and stop them quarrelling with each

other.

In that context, the term Judeo-Christian serves an important ideological function. But as the current heated debate over Mel Gibson's film “The Passion of the Christ” shows, terminological tricks alone will not prevent ancient religious differences from resurfacing in highly contentious ways.

Approach with broken heart

What, if anything, can be done to ward off that danger? Perhaps it will help if Christianity and Judaism regard one another not as monoliths but as complex spiritual systems which meet and diverge in many different places. “Rationalist” Christians, such as German Protestants, feel much in common with the cerebral world of rabbinical Judaism. And among mystically minded Christians and Jews, there can be unexpected points of encounter.

In the mystical traditions of Christianity and Judaism (and indeed Islam) there is much reflection on the principle of “broken-heartedness”. This is not meant in the ordinary sense of sadness or despair. It is a spiritual state in which the hard shell of arrogance and self-centredness that encases the human heart somehow melts away in order for the light of divine love to come flooding in.

Through much of Christian history, Christians and Jews have encountered one another through the prism of arrogant, worldly power. If Christians can approach Jews with broken hearts—which is not the same as abandoning their own beliefs—the tragedies of history may, at some level, be transcended.

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Christians and Jews

Russian table talk

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From The Economist print edition

Spiritual divisions in a good Jewish family

LEV RAZGON, a chronicler of the Soviet prison camps, was a humanist with no formal faith but a deep belief in human rights, such as freedom of conscience. Younger members of his extended family have taken full advantage of those freedoms.

The writer's nephew, Alexander Razgon, is a devout Jew who has settled in Israel; Alexander's brother Leonid, like a small but influential trickle of Russian-Jewish intellectuals, is an Orthodox Christian. To give another example from another family, Father Georgy Edelstein, an Orthodox priest of Jewish origin, is a courageous ex-dissident who said the atheist Soviet state had no moral claim on his loyalty. His son Yuli is an Orthodox Jew who, as a conservative Israeli politician, does indeed recognise an earthly homeland.

Because of Russia's history of official atheism and anti-Semitism, there are few countries where Jewish-Christian relations present so many paradoxes. During the Soviet era, when Christians were still harassed, a high proportion of those who professed that faith publicly were ethnic Jews. Now that Orthodoxy has become a sort of state religion, its ranks have refilled with nationalistic Russians, many of whom were once cheerful Soviet atheists.

Religious Jews have an explanation for “Jewish Christianity”: in Communist times, when Soviet Jewry was mainly secular, Christianity provided spiritually-minded Jews with the only available access to their own heritage. Orthodox Christians of Jewish origin see it differently: with its solemnity and antiquity, the Orthodox Christian rite (when stripped of chauvinist nonsense) reconnects them deeply with the priests and prophets of ancient Israel. It makes for some lively family discussions.

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America in Iraq

Now what?

Apr 7th 2004 | WASHINGTON, DC
From The Economist print edition

EPA

The president stands firm, but his support looks shakier

FIRST came the televised murders and mutilations of four American contractors in Fallujah. Next, the deaths of eight American soldiers in an uprising in Sadr City. On April 6th, the killing of up to 12 marines in Ramadi. The bad news comes too fast for polling to keep pace with it. Up to the Ramadi deaths, there had been no sign of a Mogadishu moment—a crisis of confidence, as in 1993 in Somalia, in a whole military operation. But the events have nonetheless shaken Americans' support for the administration's handling of Iraq and brought to the surface unease among politicians about long-term plans for an orderly transition there.

Popular opinion first. The earliest poll (by the Pew Research Centre) taken after the shocking footage from Fallujah showed no erosion in public support for the war. At the start of April, 57% of Americans thought George Bush had made the right decision in going to war with Iraq, unchanged from February. Half of Americans, somewhat down from January, favoured keeping troops in the country until there is a stable government. The picture is not very different from Somalia, where a majority in 1993 said they favoured sending more troops to the country even after the killing of 18 servicemen.

But there are increasing signs of public nervousness about the conduct of policy, even while opinion remains steadfast about the war's justification. Approval of Mr Bush's handling of Iraq has plummeted to 40%, from 59% in January. His overall job-approval rating, at 43%, is the lowest of his presidency. And just one-third of Americans think he has a clear plan for what to do in Iraq: a very low number, though hardly a surprising one.

Almost all America's “unpopular wars”, from Vietnam to Somalia, have shown that the public is less casualty-averse than is usually believed, suggesting they will not want to cut and run just because of the deaths in Fallujah and Ramadi. But they are very responsive to the opinions of political leaders. Public opinion turned against Somalia and Vietnam only after the country's leaders did. With confidence in Mr Bush's plans in Iraq already miserably low, support for the war could therefore be highly vulnerable to any shakiness of resolve among America's politicians.

At the moment, the talk is all of brave resolution. “Our resolve is firm, our resolve is unshakeable and we will prevail,” said the White House press spokesman on April 7th. And Mr Bush repeated that his

administration would stick to its timetable to hand over sovereignty to the Iraqis on June 30th. Little sign of wobbling there.

But over the next few weeks the administration faces a series of hard decisions in Iraq. It must make them against the background of a highly unstable environment, and it has few palatable choices. These circumstances will test the current sense of resolve to the limit.

The two main questions are whether to send more troops to Iraq and whether to postpone the planned handover of sovereignty. In private, senior Defence Department officials have given up claiming that the security situation is about to improve. This week, the Pentagon suspended the rotation home of 24,000 soldiers from Iraq and General John Abizaid, the chief of America's central command, asked for contingency plans to increase the number of soldiers in his region. These are the clearest signs yet that the Pentagon is concerned about deteriorating security. They reverse the previous insistence of Donald Rumsfeld, the secretary of defence, that more troops would not be needed.

Last weekend, Richard Lugar, the chairman of the Senate Foreign Relations Committee, became the first senior Republican to suggest in public that the handover date of June 30th might be postponed. He argued that Iraqi security forces would not nearly be ready then and that the administration's plans for America's role in the post-handover period were vague.

Both suggestions—to boost troop numbers and extend the deadline—show that the reaction of America's elites to setbacks has been in the direction of greater involvement, not less. In that sense, Iraq is the opposite of Somalia. The trouble is that the administration has little room for manoeuvre. To postpone the deadline, for example, would slacken the pressure on Iraqis to take more responsibility for their own affairs. And America has already changed its policy towards Iraq substantially—inviting in the United Nations, scrapping plans for a system of caucuses in favour of a direct election, and allowing low-level Ba'ath Party members back into the security forces. It can hardly change again without looking entirely fickle.

America may have done most of what it can do in Iraq. This means it has few options if the occupation fails to start improving the quality of life there. And, at the moment, the opposite is happening.

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Private security firms in Iraq

Dangerous work

Apr 7th 2004
From The Economist print edition

Reuters

An unregulated and unsupervised semi-covert world

WHAT were armed American civilians doing at all, without a military escort, in Fallujah, the most dangerous place in Iraq? They were private security guards working for a company called Blackwater USA, under contract to the American administration. Around 15,000 such civilian security guards are now in Iraq, a substantial presence. And this number does not include the telephone engineers, oil-pipeline specialists and other private contractors working on Iraqi infrastructure.

It is true that not all these people are armed former commandos like Blackwater's. Many are truck-drivers or technicians. But according to Doug Brooks, president of the security firms association, 6,000 are armed guards. And they are providing services—not just feeding and housing troops, but maintaining sophisticated weapons systems—that used to be done by the army itself.

Blackwater, for example, has a $35.7m contract to train 10,000 American troops. It helps guard the chief administrator in Iraq, Paul Bremer. DynCorp, the largest security provider, has contracts worth around $1 billion and guards the Afghan president, Hamid Karzai. Around a tenth of the total cost of Iraqi reconstruction now goes on security, but, as the training and weapons-maintenance contracts reveal, private firms also play a role in the core operations of the allied military forces themselves.

Hiring private contractors to support armies is as old as warfare itself. What is new now, argues Peter Singer of the Brookings Institution, is the nature of the involvement (much closer to the battlefield); the scale of it; and the character of the companies taking part. Ten years ago, most of the firms now in Iraq did not exist. There were mercenaries then, of course; but not quoted companies fulfilling contracts with western governments.

The development of this market—an international one, centred on Washington and London, but hiring former soldiers from as far afield as Fiji, Nepal, Ukraine, Russia and Bangladesh—is the result of fundamental change in military organisation. Since the end of the cold war, America's armed forces have shrunk by a third, and other armies by more. But the number of places where they are being deployed has not fallen. The estimated number of troops needed for Iraq was around 200,000; 135,000 are there now. When resources are stretched so thin, private firms plug some of the gap. They can do so more easily because of the number of redundant soldiers for hire.

At the same time, military technology is changing so quickly that the armed forces have to call in technical support from civilians. The upshot, argues Donald Rumsfeld, the secretary of defence, is that

the army should focus on what it does best and contract out the rest. This fiscal year, the Pentagon hopes to privatise around 10,000 jobs.

These changes have helped produce the most formidable army in the world. They will not be reversed. Demand for private security is a side-effect. But the sheer speed of change has produced both a legal vacuum and inadequate political and military oversight of private military contractors. No country has a formal regulatory regime governing them, and the piecemeal oversight that does exist often does not work.

In America, private security contracts worth over $50m entered into by the administration are meant to be reported to Congress. Companies must comply with a set of executive-branch rules called the US International Traffic in Arms Regulations. And, of course, the Pentagon can cancel a contract if it is not fulfilled. In theory, this ought to give Congress, the administration and the Pentagon a measure of control over private firms.

But in practice—as the General Accounting Office, the congressional watchdog, recently admitted—there is little oversight. American military doctrine says private contractors should not be given “mission critical” work, nor should they work in combat zones. These restrictions cannot be maintained because there is no real distinction between “mission critical” activity and logistics. As Blackhawk's employees discovered, in an insurgency, the whole of Iraq can be a combat zone.

It is true that the Pentagon can cancel a contract, but as Defence Department officials admit, problems exist with the Pentagon's own oversight: they have little experience in supervising their new subcontractors. Anyway, this is a sanction of last resort. From day to day, private security personnel operate outside the chain of command and are not subject to military discipline.

Critics also claim that private firms, far from being subject to congressional oversight, can be a means of circumventing it. During the Clinton administration, such companies trained allies on the ground in the Balkans at a time when Congress was reluctant to get involved. These days, Congress sets limits on the number of American troops in Colombia and on what they can do. Private firms operating there under government contract face no such constraints, and the administration has been accused of using them to avoid congressional scrutiny.

Lastly, the great sanction on wrongdoing—the law—does not really operate. Regular soldiers are subject to courts-martial or international law. But it is not clear what law applies to private security firms. Iraqi law is highly unlikely to be used. Since Iraq is under American occupation, a case could be made for using American law. But the standards of proof required by a American court are unlikely to be met in Iraq—or in any other war zone, for that matter. In Bosnia, when employees of a private security firm were accused of running a prostitution ring, they were shipped home and no charges were brought.

As for international law, that does not seem applicable either. The law on mercenaries is drafted too narrowly to apply to private guards. And although the Geneva Convention covers civilians accompanying armies, it was not intended to apply to armed guards. This could hurt the guards as well as help them, for it means that if they were captured they would have no protection as prisoners-of-war.

Arguably, all these are teething problems. But the quicker they are addressed, the better. For the military changes that produced the private security boom are here to stay, and so is the industry.

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About sponsorship

Urban development (1)

Padres to the rescue

Apr 7th 2004 | SAN DIEGO
From The Economist print edition

How a baseball team can revive a city

“THE city had to have a heart, so as not to look like Los Angeles.” Wise words from San Diego's Republican mayor, Dick Murphy, explaining how the opening in 1985 of Horton Plaza, a seven-storey shopping complex, revitalised a decaying city centre. Clearly, no sane San Diegan, then or now, would want the vast, unfocused urban sprawl, congested freeways and polluted air that their neighbours some 120 miles to the north have to suffer. Just as Canada is proud to be “not America”, so San Diego, with its green Balboa Park and sparkling yacht marinas, boasts of being “not LA”.

Yet the boast is beginning to ring a little hollow. In the 1990s San Diego's population increased by 18%, but the capacity of its freeways and expressways rose by only 9%. At the same time, house prices have been rising too: the average is now about $380,000 ($490,000 for new homes), which only a fifth of San Diego families can afford to pay. Moreover, the situation could well worsen: official forecasts reckon that the population of San Diego county, now almost 3m, will grow to 3.6m by 2020, putting LA-type strains on local transport and housing. Indeed, the snail-pace rush-hour on the area's freeways is already uncomfortably similar to LA's.

Such problems, of course, are the by-products of success. San Diego's low point was at the start of the 1990s, when the collapse of “the communist threat” spelled disaster for the defence contractors clustered around its naval base, the biggest on the west coast. A decade later, when northern California was hurt by the bursting of the dotcom bubble, San Diego by contrast was prospering: its economy was nicely balanced, and skilled jobs were easy to find in biotechnology or electronics.

The challenge is to stop the success being self-destructive. The bigger the demand for housing, the greater the need for higher wages—and the greater the risk that employers, especially start-ups, will either founder or leave the region. Garry Bonelli, spokesman of the San Diego Association of Governments, points out that San Diego's housing is almost as expensive as San Francisco's and more expensive than New York's, but its salaries are lower. That is why David Hale, the president of CancerVax, a biotech start-up developing drugs to combat cancers, chose to set up his research centre some 30 miles north of downtown San Diego: Carlsbad, he says, is a town where his scientists can afford to find housing with the salaries he can afford to pay them. Multiply Mr Hale's experience by that of many others, and the result is urban sprawl. The rich go to exquisite seaside spots such as La Jolla and Solana Beach; the less rich go to places like Carlsbad; and the poor, as in so many American cities, are stranded downtown.

Hence the need for a new version of Horton Plaza to get the downtown heart beating faster. Mr Murphy's taxpayers and John Moores, the billionaire owner of the San Diego Padres, the local baseball team, are betting that a brand new stadium, PETCO Park, will do the trick. They could well be right. When the stadium, 70% owned by the city, opened on March 11th for its first game, 40,106 of the 42,000 seats were filled—and so were the neighbourhood's restaurants, old and new. Factor in the almost-finished Omni Hotel, attached to the ballpark by a fourth-floor bridge, or the cranes that are perched over the surrounding blocks, and the future downtown could be a civilised mix of boutiques, hotels, restaurants and private housing—San Francisco, in other words, and not LA.

In which case, the taxpayers will have got themselves a bargain. San Diego made the sweetest of deals with Mr Moores: not only did the Padres have to put up $146m towards the $450m cost of the project, but Mr Moores's property company was also required to invest up to $311m in new hotels (such as the 511-room Omni), offices, car parks and houses, including “affordable housing” to ensure that a newly chic downtown does not turn into a yuppie ghetto. Moreover, Mr Moores had to guarantee that the city's tax-take from the hotels would be enough to pay off the bonds it had issued to pay for its share of the

ballpark. In other words, Mr Moores and his Padres take all the risk and the city gets most of the reward, including full ownership of the ballpark in 30 years' time.

Not surprisingly, therefore, Mr Moores still seethes at the way legal challenges delayed the project by two years, with the loss of $52m in projected ballpark and hotel revenue. Another gripe is the difficulty of coping with local and state laws (witness the need to preserve and move a 1924 candy factory, described by Mr Moores as “a historic building that is historically insignificant in which nothing historically significant ever happened”). Indeed, according to Mr Moores, he will never get his money back. On the other hand, he loves his Padres. If they beat the San Francisco Giants in the three-game series beginning on April 8th, the first home games of the regular season, he will think his money well spent—and so will San Diego.

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Urban development (2)

The whims of the fathers

Apr 7th 2004 | MEMPHIS, TENNESSEE
From The Economist print edition

What exactly is the meaning of the word “promenade”?

WHEN you have a great big brawling river like the Mississippi running past your town, it is only sensible to make something of it. So when John Overton, Andrew Jackson (the country's seventh president) and James Winchester founded Memphis, Tennessee, in the early 19th century, they proclaimed that development along the banks should never impede free access to a panoramic view of the river. And they even said that changes along a designated promenade could not be made without their heirs' approval.

City officials these days find these stipulations quaint. The founding fathers of Memphis obviously had no idea how much the city would need to grow and how much it would want, eventually, to have a vibrant riverfront like those in St Louis and New Orleans. Already, the Memphis promenade has shrunk to about half its original size because of unstructured development. What is not garages or ugly slapped-up buildings is often just a stretch of muddy grass with graffiti-covered litter bins.

Now the Riverfront Development Corporation (RDC), a non-profit organisation, has voted to approve a new plan, which would re-open some of this land and return stunning views of the river to water-lovers. It would also feature new 30-storey buildings, with flats and boutiques, that will inevitably block some views of the river that the founders wanted to conserve. Still, as the RDC points out, revitalisation breeds consumers, who will enjoy the river all the more while sipping on a gourmet coffee and chatting with friends.

The plan has split the city. Preservationists worry that once dollars start pouring into the project, development will know no bounds. Instead of grass and mud, the river area will become a concrete wonderland; and those glorious sunsets, looking over the river to sprawling Arkansas, will be seen on postcards only. Virginia McLean, the leader of a preservation group called Friends for Our Riverfront, believes open green space better suits Memphis's future than yet more concrete and steel; and, as an Overton heir, she will have a big say in what happens. But other members of the family, who live in Nashville, think more modern buildings are just what Memphis needs.

The Memphis city council casts its votes on the plan this month. Whatever happens, it will probably end up in court, and legal arguments are likely to rage over the actual meaning in the founding fathers' minds of the word “promenade”. In fact, when the trio bestowed an easement to the land in 1828, they made sure that the land should be public for “such use only as the word ‘promenade' imports”.

Perhaps they knew all too well the changeable minds of Memphis citizens. A stroll away from the embattled promenade stands the 13-year-old, $65m Pyramid, built in homage to the Egyptian variety, which was meant to be the region's main sports and concert arena. Now its future is in doubt; attention has shifted to new multi-million-dollar sporting and music facilities only a few blocks away, in another revitalised part of town, where historic buildings have been razed to make room for the new. There is every chance that, in another ten years, the RDC's sparkling apartments and shops overlooking the Mississippi will face the same bleak future as the once-loved Pyramid.

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Immigration

Fingerprinting friends

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From The Economist print edition

Necessary surveillance for Aussie ski-bums

AS THEY head off happily to the slopes, many Europeans may have missed a piece of bad news. The Department of Homeland Security has unveiled plans that will require travellers from 27 countries, including close allies such as Britain and Australia, to be photographed and electronically fingerprinted when they arrive in America.

Similar rules have been in place since January for students, visa-holders and citizens of countries that need visas for America. But these did not cover tourists from “visa-waiver” countries, who can stay without visas for up to 90 days. No more. By September 30th, the security measures will be extended to cover visitors from 22 European countries, as well as Japan, Australia, New Zealand, Singapore and Brunei. Nearly 13m visitors came to America from those countries in 2002. Only diplomats, children, old people, and Canadians or Mexicans with short-term border passes will be exempt.

Officials say the extension is needed to close loopholes that could let terrorists slip into America. Incoming visitors get most scrutiny, but kiosks that electronically monitor people as they leave, checking whether they have overstayed, are being tested at Baltimore airport and on cruise-ship passengers in Miami.

Early reactions from abroad were muted, although the timing of the announcement (on a Friday evening in Europe, ahead of a holiday week) appeared intentional. “This hasn't sunk in yet,” said a European diplomat based in America. “I expect you'll get an instinctive reaction against these steps. Europeans only do these things to criminals.”

It is partly Europe's footdragging that has led to this. The Europeans were originally meant to photograph their citizens themselves, and to start putting these “biometric” data into their passports by October 26th. Most countries are expected to miss the deadline, though, and even America is running behind. Bowing to reality, the State Department and Homeland Security officials have asked Congress to delay the deadline by two years. But America's new security steps may not disappear even when biometric passports at last come in, because not all countries may include fingerprint data.

The delay was a keen disappointment to Australia, one of the few countries that had expected to meet the deadline. It has spent A$6.5m ($4.9m) on research and development of biometric documents. Matt Francis, an Australian government official, noting that Colorado ski resorts are full of his countrymen at this time of year, predicted that Aussie *Wanderlust* would not be dampened by America's new security steps. “They'll probably see it as a challenge” to overcome, he suggested. Europeans may well feel the same.

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Sex and football

Deep in the red zone

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From The Economist print edition

A recruitment drive that got out of hand

APRIL 2nd marked the start of spring football practice at the University of Colorado in Boulder. As the Buffaloes marched out on to the field, to crowds, flags and cheers, few would have thought that they played so badly last season; and fewer still would have imagined the size of the scandal the team is embroiled in.

In December 2001 the team held a recruitment party off campus. Three women allege that they were raped at or immediately after it, and they are suing the university for fostering an environment hostile to women—an infraction of Title IX, the federal law that prohibits sex discrimination in colleges and schools.

According to Baine Kerr, a lawyer for one of the plaintiffs, the use of sex as a recruiting tool for the football team was something of a habit. Prostitutes were supposedly hired from a local escort service, while another company provided strippers “on several occasions”. At the very least, said Mr Kerr, this was a case of felonious pimping.

In mid-February this year, two more women came forward with stories of rape. Katie Hnida, a former place-kicker for the university, told *Sports Illustrated* how, as the first woman on a Division 1A football team, she endured a year of sexual harassment by many of her team-mates, ending in a rape. The head coach, Gary Barnett, responded that she was “a girl and not only was she a girl, she was terrible. Basically, we were doing her a favour.” He rapidly found himself on leave.

More accusations followed. On February 18th, a former athletics department employee said she had been raped by a university football player in September 2001, but that Mr Barnett had promised to back the player “100%”. On March 30th, the press was told that two more women had reported long-ago assaults to the rape crisis centre in Boulder. That made ten accusations, true or false, since 1997. There were also reports of drink being served to under-age recruits. A second coach, Vance Joseph, was put on leave, though the university would not say exactly why.

It is investigating matters, though the investigative panel has been accused of bias by women's groups. One panel-member, Joyce Lawrence, wondered aloud why the women had gone to the party in the first place. Another, Phillip Porter, a Pentecostal bishop, turned out to be a close friend of the former head football coach, Bill McCartney, founder of Promise Keepers, a hug-pray-and-cry organisation for Christian men. The two remained on the panel, but a victim advocate was added.

The state has also stepped in, with Governor Bill Owens asking Ken Salazar, his attorney-general, to lead a criminal inquiry. Diana DeGette, a Democratic congresswoman from Denver, is heading a congressional investigation into National College Athletic Association (NCAA) rules and practices on college recruiting. Some think that college teams should become professional, acknowledging the fact that most of the players spend very little time at their books. The NCAA, however, would fight this tooth and nail.

The case touches colleges across the country. The Buffaloes generate $25m a year for their university. More and more, universities are competing for sponsorship deals and ticket sales. A university like Colorado must fight for spectators with four big professional sports franchises, including the local football team, the Denver Broncos. Attracting top high-school athletes with wine, women and song is part of winning that game. Just as well that April has been designated national Sexual Assault Awareness Month.

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Civil war memories

Dredged from the deep

Apr 7th 2004 | COLUMBIA, SOUTH CAROLINA
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A very belated funeral for the crew of a submarine

ON FEBRUARY 17th 1864, eight crewmen on the *HL Hunley* shot a 135-pound torpedo into the Union warship *Housatonic*, sending five Northern sailors to their deaths. It was the first time in history that a submarine had sunk an enemy ship in wartime. The *Hunley* then surfaced long enough for her crew to signal the shore with a blue light, indicating success. Minutes later, submarine and crew vanished under the sea.

For more than 130 years, the Confederacy's most secret and experimental weapon lay rusting at the bottom of the Atlantic, just outside Charleston harbour. P.T. Barnum, the great showman, once offered a reward of $100,000 to anyone who could find her. But she was not discovered until 1995, by Clive Cussler, an author and adventurer. The craft was raised five years later. On April 17th, the crew's remains will be buried with full military honours at Magnolia cemetery in Charleston, joining 13 *Hunley* sailors who died on earlier missions.

Further proof, if any were needed, that the civil war is far from over in South Carolina. Civil war “re-enactors” dress up in Union blue and Confederate grey uniforms every year, re-creating famous battles all over the state. The Confederate flag that fluttered, controversially, over the State House in Columbia was not removed until 2000. And on April 17th thousands are expected to line the five-mile route of the funeral procession, down which horses will draw caissons carrying each sailor's remains.

The chief driving force behind the funeral is Glenn McConnell, a powerful Republican state senator for Charleston. Mr McConnell, who owns a store that sells Confederate memorabilia, wants the *Hunley* to be displayed as part of a 60,000-square-foot civil war maritime museum. He has also helped to organise lectures about the *Hunley* and tours of the ancient submarine.

On the tour, visitors can view a $20 gold piece discovered next to the remains of Lt George Dixon, commander of the *Hunley* on her final mission. The coin, a gift from his sweetheart, had saved his life during the Battle of Shiloh in 1862 when it deflected a Union bullet that hit his chest-pocket. He kept it as a lucky charm; and until that long-ago February night, it had worked.

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Lexington

When good news spells trouble

Apr 7th 2004
From The Economist print edition

The recovery isn't jobless after all. What should John Kerry do?

Get article background

OVER the past 70 years or so, one thing that has not changed is American politicians' readiness to make comparisons between the present times and the Great Depression. John Kerry, indeed, has built his candidacy for the White House on the technique. He campaigns against George “Herbert Hoover” Bush for presiding over “the greatest jobs loss since the Great Depression”. This week, Mr Kerry and his Democratic big-gun supporters spread out across the country to highlight the candidate's “new direction” for the economy, one that will create 10m jobs rather than destroy them, as Mr Bush prefers to do. There was much talk of the Depression along the way.

Elsewhere in the West, it is generally accepted that people no longer live in black-and-white lines, with their coat collars turned up. But in the United States, surely the comparisons are justified? A lot of Americans think so, as any morning spent tuned to the call-in shows will testify. After all, are Americans not working ever-longer hours just to keep above water? Is not their private prosperity being appropriated both by a rapacious government and by corporations making record profits? Are not jobs being destroyed at a vicious pace? And are not low-wage countries like China and India to blame?

Mr Kerry certainly thinks so. And yet, by so many measures, life in the United States shows steady, material improvement. Americans, on average, spend less of their lives at work than ever before. Companies are indeed making record profits and, in recent months at least, have grabbed a bigger share of the national pie. Yet household income is growing, and American private wealth is also at a record, standing at $44 trillion, give or take. And though the chances of finding a new job are lower, the chances of losing your job in the first place are less than during the boom of the 1990s.

Many people will buy none of this, and the one irrefutable concern that has grabbed Americans' attention this year is the flood of jobs going overseas. Now, if your textile mill in West Virginia closes down, that is very bad news indeed for you and for your community. But at the national level, more jobs are outsourced to America than the other way around. American workers, in other words, are net beneficiaries of outsourcing (it goes without saying that consumers always were). And in the cross-border trade of white-collar services, a chief concern, America's surplus with the rest of the world is not shrinking; it is growing.

These points will not bother a Democratic presidential candidate, so long as the economic mood in the country remains ornery, and so long as he can point to net job losses (over 2m of them in this case) under the incumbent. No matter that the recession which caused the losses began two months before Mr Bush took office.

So how do a month's good job figures affect the picture? Enough to cause Air Force One to break out with riotous glee on April 2nd, when March's employment report was beamed up to it. Enough, indeed, to suspect that even as he welcomed the news (he could hardly do other), Mr Kerry also felt a foreboding in the pit of his stomach. For not only had 308,000 jobs been created in March; the number of new jobs in January and February were also revised sharply upwards. Far from a jobs “recession”, if this trend carries on it will look very much like a robust jobs recovery.

Thinking the unthinkable

Even then, a Democratic candidate will not necessarily give up hope. For employment in one area of the economy, namely manufacturing, has been in secular decline for decades. From that point of view, bemoaning job losses in manufacturing seems a sure-fire bet, particularly since 2.7m jobs have been lost since 2001, a largely cyclical decline. And it so happens that the key swing states in the coming election are ones that have seen manufacturing jobs lost in droves: Ohio, Michigan and Pennsylvania. Perhaps the chief plank of Mr Kerry's economic policy so far is to channel tax credits to manufacturing firms seen to be losing jobs overseas.

Time, then, to think the unthinkable: a recovery in manufacturing jobs. There are reasons to believe one may be under way. The beneficial effects of a cheaper dollar are starting to be felt, with output climbing. A closely-watched survey by the Institute for Supply Management reports hiring among manufacturers at a 16-year high (though the government's employment report still paints a less robust picture). Firms appear to be rebuilding their inventories, and they will presumably need to hire more workers to do that.

For Mr Bush, March's employment report has recharged a flickering campaign. The more jobs that are now created, the less the president needs to defend his economic record, which is certainly open to criticism. Mr Bush, after all, has at times caved in to protectionist pressures. And even the tax cuts at the core of his economic campaign could have delivered a far bigger bang for the buck. They are highly regressive, favouring those who live off income more than salary. And they may even have helped delay the jobs recovery, thanks to tax provisions allowing businesses to write off against tax a higher proportion of any capital investment they make. That made it cheaper, other things equal, to invest in machines rather than people.

With jobs growth, Mr Bush does not need seriously to rebut such matters. But for Mr Kerry, all this is uncomfortable. His proposals for a bleak world are sweeping—for instance, he proposes to provide cover for the 40m-plus Americans who currently lack health insurance—and they are costly, for he is also committed to halving the federal deficit. He now has no choice: the better the economy gets, the bleaker his message will have to become. Will voters still buy it?

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Corruption in Latin America

Harder graft

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From The Economist print edition

The “war on terror” has spawned a battle against corruption in Latin America

SINCE September 11th, the United States has become more sensitive about some threats that it once seemed resigned to living with. In its own backyard, one of the old enemies it has begun to engage more vigorously is Latin American corruption. The days when crooked leaders could launder their embezzled money in Florida with impunity may be coming to an end. Corrupt officials are also losing another asset, which many prize almost as highly as cash: their American visas.

Using little-noticed provisions of the United States' controversial Patriot Act—passed in a hurry after September 11th—the Department of Homeland Security has been pursuing the American assets of foreigners suspected of corruption in their own countries. Since its launch last October, a pilot scheme run in Miami by a branch of the department—Immigration and Customs Enforcement—has begun more than a dozen investigations, involving people from eight countries.

The best publicised of these cases has been that of Byron Jerez, erstwhile right-hand man of Arnoldo Alemán, Nicaragua's former president. Mr Jerez and Mr Alemán are accused of siphoning off as much as $100m in public funds, some of which may have made its way to Miami (Mr Alemán was himself sentenced to 20 years in prison for embezzlement in December). American officials recently held an auction of property seized from Mr Jerez in Florida, and plan to hand over a cheque for $5m to the Nicaraguan government. Tony Arico, a former financial-crimes investigator with the FBI and head of the pilot scheme until last week, hopes the $5m is only the start: “we want to show that we are there to help our neighbours.”

Investigators have now turned their attention to two other Latin American leaders, both of whom fled their countries soon after leaving office: Gustavo Noboa, once president of Ecuador; and Alfonso Portillo, an ex-president of Guatemala. Government officials and bank executives from the Dominican Republic, who were implicated in the collapse of Banco Intercontinental last year, are also under scrutiny. If the cases reach court, provisions in the Patriot Act have greatly expanded the range of evidence that can be used, which now includes material gathered clandestinely by intelligence agencies that was previously deemed inadmissible.

Sling your hooks

The second new weapon against Latin American graft, also derived from the Patriot Act, is to deny or revoke the visas of corrupt functionaries, or PEPs (short for 'politically exposed persons'). In the past, visas could be revoked only in cases involving drug-trafficking, people-smuggling or war crimes. Ernesto Samper, Colombia's former president, lost his visa under those provisions, after he had been accused of accepting drug money in his election campaign. Ernesto Pérez Balladares, Panama's former president, lost his in 1999 for alleged involvement in a Chinese immigration racket. But a much broader spectrum of public graft can now be punished by the curtailment of holidays and residence in the United States.

The discretionary nature of visas makes them an ideal anti-corruption lever, since there is no need to wait for someone suspected of corruption to be convicted by local courts—a rarity in the region—before revoking his right of entry. Because of privacy laws, officials cannot say how many visas have been withdrawn, except in the most notorious cases. However, "the list is growing," says one source. It includes a number of top government personalities, such as former heads of state, ministers and generals, as well as several well-connected bankers. The scandals in the Dominican Republic and Guatemala resulted in several visas being withdrawn. Mr Portillo, the Guatemalan, was stripped of his last month.

The United States has in the past been criticised for tolerating corruption, especially when its political allies in the region were implicated. Two reasons lie behind the decision to get tough now. One, the national-security argument, is that public corruption, and the instability it can bring about, help terrorists seeking to smuggle weapons or launder money. A second arises from a rethink of Washington's foreign-aid policy. In 2002 the Bush administration pledged to increase its aid budget by 50%. But, like other governments, it does not want to waste taxpayers' money on bent regimes. (A new UN convention on corruption may help to encourage co-operation against cross-border graft.)

America's critics argue that the new policy, whatever the motives behind it, is long overdue in a region racked by almost endemic public thievery. But some are still not satisfied: the only way to tackle the problem of money-laundering properly, they say, is to pursue the financial institutions that enable the transfers of dirty cash. "Merely seizing and forfeiting property isn't enough," argues Charles Intriago, a former federal prosecutor who now publishes *Money Laundering Alert*, a financial-crimes newsletter: "Unless the American government prosecutes the American handlers of the money, then the message is never going to get across."

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Crime in Argentina

The tipping point

Apr 7th 2004 | BUENOS AIRES
From The Economist print edition

The political consequences of a murder

NOT since the protests that helped to overthrow two presidents in 2001 has Argentina witnessed a bigger demonstration. Last week, more than 130,000 marchers congregated in the centre of Buenos Aires to hear an impassioned speech demanding criminal-justice reform. The orator was Juan Carlos Blumberg, whose 23-year-old son, Axel, had been abducted and then murdered by his kidnappers. Confronted with this restrained anger, Argentina's government has—perhaps for the first time since President Néstor Kirchner took office last year—found itself chasing the political agenda, rather than setting it.

Mr Blumberg and his supporters want increased sentences for violent crime. Spooked by the strength of public protests, Congress is obliging in a hurry. But it seems unlikely that even tougher sentences will solve Argentina's crime problem. Penalties for offenders have been increased repeatedly in recent years: while the number of convictions has risen by 40% in the last two decades, the number of felons sent to jail has gone up by 60%. But this supposed deterrence has failed to cut the number of offences.

It has, however, created a serious problem of overcrowding in prisons and police stations. UN inspectors last year described prison conditions in Argentina as “serious, cruel and inhumane”. A string of recent investigations has suggested that many prisoners are tortured; some have also been let out by prison officials in order to commit armed robberies. Meaningful reform of the prison service has proven beyond the capabilities of national and provincial authorities.

A shake-up of the notorious Buenos Aires provincial police force, the *Bonaerense*, is unlikely to prove any easier. The *Bonaerense* has long been suspected of colluding in serious crime, with the connivance of corrupt politicians. In the Blumberg case, the police stand accused of taking “protection money” from the kidnappers in return for a free hand. It has emerged that at least four neighbours rang the local police station to say they had heard Axel Blumberg being beaten after he tried to escape. The calls were ignored.

Successive provincial administrations have balked at tackling the *Bonaerense*. While governor of Buenos Aires, Eduardo Duhalde, a former president, defended the force as “the best in the world”. Public outrage at rising crime later forced him to attempt a reform; but his successor aborted it in 1999, and gave the police more powers instead. Felipe Solá, the current provincial governor, also made a half-hearted attempt at a shake-up, but then sacked its architect and launched an ill-considered package of tougher punishments.

Will the response to the Blumberg outcry be any less myopic? The case was, sadly, unexceptional. But Axel was a handsome young man from a well-to-do and articulate family, and his death has struck a powerful chord, particularly among the middle class of Buenos Aires. Crime has been rising steadily (along with poverty, although this is now falling again), even if the city remains one of the continent's safest. The issue tops the polls of public concerns in and around the capital.

So Mr Kirchner knows that he must be seen to be dealing with it effectively. Thus far, while Mr Solá's reputation has suffered, confidence in Mr Kirchner himself remains high. He is using that advantage to press Mr Solá to take on the *Bonaerense*, an idea that has met predictable resistance.

The protests have come as Mr Kirchner fends off suggestions that he is an amateurish improviser. His critics point to a spat he has generated within his own party, over the commemoration of human-rights abuses under the military regime of 1976 to 1983. However popular, his failure to increase energy tariffs is now helping to cause energy shortages.

Optimistic opposition talk of the end of the president's political honeymoon may be premature. But Mr Kirchner needs to start demonstrating longer-term solutions to some of Argentina's more intractable problems—starting with crime.

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Developing southern Mexico

Plan qué?

Apr 7th 2004 | SAN CRISTóBAL DE LAS CASAS, CHIAPAS
From The Economist print edition

Mexico's flagship development project has stalled

Get article background

IT WAS a bold bid for regional leadership. Soon after he took office four years ago, Vicente Fox, Mexico's president, outlined a development plan for nine of his country's poor southern and south-eastern states, and for its Central American neighbours. One of the objectives of the Puebla-to-Panama Plan (PPP) was to narrow the gap between Mexico's south and the richer north, which had opened under the North American Free-Trade Agreement (NAFTA) during the 1990s. Road-building (to promote commerce), power and other infrastructure schemes were the main elements, though social projects, environmental protection and improved disaster-prevention were also mentioned. Yet, three years on, little trace of the PPP can be seen in southern Mexico.

In a village near San Cristóbal de Las Casas in the state of Chiapas, one of the areas supposed to benefit most, villagers look blank at the mention of the plan—named after the Mexican state and Central American country at the northern and southern ends of its scope (see map). They have encountered other development schemes, though, and they show little enthusiasm for them. Cayetano Hernández, for instance, says a new road through his village was built without local consent, and took up a lot of land formerly used to grow maize. Only those with cars benefit—a group, says Mr Hernández, which includes his family “only in my dreams”. They probably will not even be able to afford much electricity.

These concerns help explain why the PPP has flopped in Mexico. Manuel Parra, of the local University of the Southern Frontier, argues that, as an “urban-industrial” project, the PPP was irrelevant to the poor, rural south, and did not “work with the advantages and resources of the region as they actually exist.” And however noble its intentions, the government has failed to explain it to the region. Apart from a basic website, information about it is hard to come by. Neither of the two main cities of Chiapas yet has a dedicated PPP office. The impression has been given that this is a scheme imposed from Mexico City. Thus, though launched by Mr Fox, the PPP seems to remind many people of the previous, authoritarian regime of the Institutional Revolutionary Party.

Plan B

These mistakes have proved fatal in a region naturally suspicious of the federal government. Decades of

strife between the locals, especially the indigenous population, culminated in the Zapatist uprising of 1994, which was centred on San Cristóbal de Las Casas. Since then, the city has become a mecca for the anti-globalisation, environmental and anarchist movements. These fell on the feeble presentation of the PPP with glee, portraying it as a damaging conspiracy. The result has been a public-relations disaster for the government, and stagnation on the ground for the PPP.

Can Mr Fox save his grand vision? He certainly hopes to, and the PPP office in Mexico City is soon to relaunch the plan, apparently in a fresh spirit of co-operation. Herbert Taylor, who took over as its boss at the lowest ebb, now admits that his team have been “very bad communicators” and made “bad, stupid errors”. With a new air of humility, he says the PPP will now be more a co-ordinator of ideas from the states than a top-down planner. It will include some of the elements that people in Chiapas have been asking for all along. Besides the roads, which are still “indispensable”, he points to new provisions in the budget for health projects, such as campaigns to fight AIDS and the newly arrived dengue fever. He has, he says, been trying to think like “an average citizen: what would I want out of the project?”

Down in Central America, the plan has been more successful, partly because other countries have been better at securing money for PPP projects from the Inter-American Development Bank. The sort of attitude Mr Taylor claims to have adopted would represent a remarkable turnaround for Mexico's bureaucracy, and might revitalise the PPP in Mexico. But the relaunch may have come too late, particularly for Mr Fox, who will leave office in 2006 and still seeks his place in the history books.

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The Caribbean and Taiwan

Easy money

Apr 7th 2004 | TRINIDAD
From The Economist print edition

Communist money pays off capitalist debt

ROOSEVELT SKERRIT, Dominica's 31-year-old prime minister, has plenty of reasons to be cheerful. Three months into office, he scored a landslide win in a by-election on April 5th. And last week, China promised him $122m in return for revoking his country's recognition of Taiwan. The switch will bring in more than a third of his government's normal revenue, for five years—or $1,750 for each of the island's 70,000 inhabitants.

Trading on their sovereignty is a well-established way for small states to make fast cash. As eco-tourism and agriculture have drifted, Dominica has sold passports, hosted offshore banks and voted alongside Japan for commercial whaling. But playing off Taiwan and China is the favourite local game.

The stakes are high, and competition fierce. Elsewhere in the world, Macedonia, Nauru and Liberia have recently gone over to Beijing. In the Caribbean, the Bahamas (which has a big Hong Kong-owned container port), and St Lucia (which had a new government) defected in 1997. Kiribati, in the Pacific, plumped for Taiwan last year.

Dame Eugenia Charles, one of Mr Skerrit's predecessors, chose Taiwan in 1983 out of political conviction. For 21 years, Taiwan repaid her with small-scale aid projects, such as the occasional gift of police cars and help with new crops. For this, says Mr Skerrit, his country still has “profound gratitude”. But “pursuit of its national interest”—ie, money for a sports stadium, road, school and hospital, plus $4m in the bank to pay this month's state salaries—comes first.

Dominica certainly needs the cash. Banana exports fell from over $30m in 1992 to less than $5m last year. Only 6,000 people earn enough to pay income tax; unemployment is around 25%. The island sits in the middle of the hurricane belt, and has around a 25% chance of enduring a big volcanic eruption within 25 years. Two prime ministers have died since the last election in 2000.

But even the Chinese gift won't solve all of Dominica's problems. China often sends its own labourers to man overseas construction projects. Dominica will still be in debt, much of it borrowed at commercial rates from unforgiving banks. The IMF and others have been working on their own aid programmes, but with tedious conditions, such as more civil-service pay cuts.

The Taiwanese are not beaten yet: St Vincent, Grenada and St Kitts & Nevis, among others, still recognise them. Actually, Nevis (population: 10,000) wants to secede from St Kitts; a referendum is planned for later this year. If China stumps up another $122m, independence might become affordable.

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Indonesia

Punching the white snout

Apr 7th 2004 | JAKARTA
From The Economist print edition

AFP

The early results bode ill for the president, but secularism remains intact

Get article background

IT WAS one of the biggest elections ever held, and also one of the most complicated. On April 5th, some 140m Indonesians at more than 595,000 polling stations chose between almost 450,000 candidates competing for 15,276 offices. Voters had to grapple with four separate newspaper-sized ballots to select members of both chambers of the national parliament, plus provincial and local councils. The results, which will not be finalised for another two weeks, will also determine which parties can nominate candidates for the presidential election in July. The tally so far suggests that Indonesians, although dissatisfied with their current, largely secular, government, are not tempted by Islamic alternatives. Instead, they are plumping for smaller parties, leaving the presidential election, and Indonesian politics in general, particularly unpredictable.

As *The Economist* went to press, less than 15% of ballots had been counted. President Megawati Sukarnoputri's Indonesian Democratic Party of Struggle (PDI-P) was neck and neck with Golkar, the political vehicle of Suharto, Indonesia's former strongman, with 20% each. But those figures are likely to change, since rural areas, which are slower to report, vote differently from cities. By the same token, Java, the country's most populous island, tends to opt for different parties than the rest of the Indonesian archipelago.

Before the vote, most polls were predicting that PDI-P's support would plummet from the 34% it received in the previous election, in 1999. Such a drop would leave Golkar as the biggest party, but would also benefit several smaller parties, such the newly-founded Democrat Party, and the Prosperous Justice Party (PKS). A representative sample of the actual results, compiled by a consortium of Indonesian and foreign NGOs, bears this scenario out. It projected Golkar leading PDI-P, by 23% to 19%, with another five parties, including the Democrats and PKS, above the 5% threshold needed to nominate a candidate for the presidency.

These percentages, however, do not translate directly into seats in the 550-member DPR, the main chamber of the national parliament. The system of distribution favours bigger parties over smaller ones, and those which perform well in the outer islands over those which do best in Java. Golkar, as both the

biggest party in general and the strongest force in the outer islands, is likely to win an even higher proportion of seats than votes.

All this leaves the presidential election wide open. In theory, the candidates of PDI-P and Golkar should have an advantage over those of smaller parties. But Golkar is likely to field Akbar Tandjung, the current speaker of the DPR, whose reputation has suffered from a series of corruption scandals, while the PDI-P's slump bodes ill for Miss Megawati. Susilo Bambang Yudhoyono, the leader of the Democrat Party, is now in the running, while an alliance of Islamic parties including the PKS would make a good showing. To make matters yet more opaque, Indonesia has never held a direct presidential election before, making it hard to predict whether voters will remain loyal to the party they supported in the parliamentary election. But no candidate seems likely to win 50% of the vote, so the election will proceed to a run-off on September 20th.

When all the dust has settled, however, the tenor of Indonesian politics will probably remain much the same. After all, if the projections are correct, fewer than 40% of Indonesians voted for Islamic parties—and fairly mild ones at that. The successful presidential candidate will almost certainly be a secular nationalist of some sort. And the government he or she forms will probably be a coalition of all the major parties, just as the current one is. The rise of smaller parties might produce even more squabbling and aimlessness, but Indonesia's religious moderation, economic liberalism, endemic corruption and testy co-operation with America in the war on terror should all endure.

In fact, ideology played almost no part in the elections. Most parties were too busy trying to familiarise their supporters with their symbol and position on the ballot to fuss about policies. One PDI-P candidate, when asked to summarise his party's election strategy, replied, “Punch the white snout”—a reference to the white-nosed bull of the party emblem. The slogan of the PPP, an Islamic party, was “On April five, punch number five.” At election rallies, comedians and dancers took centre stage; the politicians muttered brief platitudes about economic growth and national pride before cracking a few jokes or bursting into song themselves. Although the Democrats and the PKS, among others, did denounce the current government, their criticisms centred more on corruption and drift than on specific policies.

But the most remarkable thing about the vote is that it took place at all. The government was so worried that the election commission would not manage to distribute the ballot papers and boxes on time that it prepared an emergency decree to delay the elections. In the end, all but the remotest corners of Indonesia voted as scheduled. What is more, polling went peacefully, even in strife-ridden provinces such as Maluku and Central Sulawesi. Despite dire predictions, few would-be voters complained of disenfranchisement due to flawed registration procedures. Turnout was high, and voters coped well with incredibly complicated ballots, thanks in part to a massive voter-education drive. All that is quite a triumph, considering that this is only Indonesia's third free election for the lower house of parliament in 50 years, and the first for the new upper house. It is also a relief, given that the country faces two more votes this year.

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China and Hong Kong

One country, one system

Apr 7th 2004 | HONG KONG
From The Economist print edition

Hong Kong's independence has been badly undermined

Get article background

CHINA made it clear this week that any move to introduce greater democracy in Hong Kong will need prior clearance from the central government in Beijing. So what else is new? Few had ever expected that political reform in the territory would get off the ground if China's Communist leaders were against it. But Hong Kong's frustrated democrats see the ruling as an unusually direct assault on the idea of “one country, two systems” under which the former colony is supposed to enjoy extensive autonomy, except in foreign affairs and defence. If China wants to ease the political tensions that have roiled the territory in recent months, it may have chosen the wrong tactic.

The new constraint on Hong Kong's political freedom was declared on April 6th by the 173-member standing committee of China's National People's Congress (NPC) at the end of five days of discussion in Beijing. The NPC is China's legislature, and acts only on the bidding of the Communist Party. Only one of its standing-committee members is from Hong Kong: Tsang Hin-chi, a businessman, who has no time for Hong Kong's democrats.

It is the way in which the ruling was delivered, as much as, if not more than, what it said that angered the pro-democracy camp. The NPC's agenda was announced a mere ten days before it was convened. Even if he knew about it beforehand, Hong Kong's chief executive, Tung Chee-hwa, gave no hint of China's imminent intervention in the territory's acrimonious debate about political reform. Many observers believe that Mr Tung was sidelined by China in its rush to dampen demands for far-reaching political change in Hong Kong. Opinion polls suggest strong public support in Hong Kong for the territory's chief executive and legislature to be returned by universal suffrage.

The NPC's brief pronouncement did not exclude the possibility of political reform in 2007, when Hong Kong is due to select a new chief executive (Mr Tung will have served his maximum two terms by then), and in 2008 when a new legislative council (Legco) will be chosen. Hong Kong's Basic Law, the territory's post-colonial constitution drawn up by China, does not specify procedures for elections beyond these dates. At present the chief executive is chosen by an electoral college consisting largely of Chinese-appointed luminaries who support the Communist Party's policies in Hong Kong. Of Legco's 60 seats, only 24 are directly elected. According to the Basic Law, this will increase to 30 in elections to be held in September.

The Basic Law makes it clear that China's approval is needed for any change to the method of choosing a chief executive. But it states that Hong Kong has greater leeway when it comes to Legco. Ten years ago, a Chinese foreign-ministry spokesman said that the possibility of filling all the legislature's seats through direct elections was “a question to be decided by [Hong Kong] itself and it needs no guarantee by the Chinese government.” Now the NPC has decided otherwise. Any move to change any electoral method will need China's prior approval before Legco can even consider it.

This is the first time since Hong Kong's handover to China in 1997 that the NPC has unilaterally taken it upon itself to issue an “interpretation” of the Basic Law. Only once before—in 1999—has it pronounced on the law (on the question of who has residency rights in Hong Kong), and then it was at the request of the Hong Kong government. Pro-democracy politicians fear that the latest action might set a precedent for China to issue “interpretations” of the Basic Law whenever it feels the need to prevent challenges to its political grip.

China's confidence in Mr Tung's leadership ability has ebbed considerably in recent months. The NPC's

ruling is a sign that the central leadership wants to take up the reins. Martin Lee, a pro-democracy legislator, puts it this way. “Beijing is really saying [to Mr Tung], we don't believe you can do anything for us any more. So we're going to take over ourselves.”

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Sri Lanka's election

Chandrika's chance

Apr 7th 2004
From The Economist print edition

The president's victory at the polls will not restore stability

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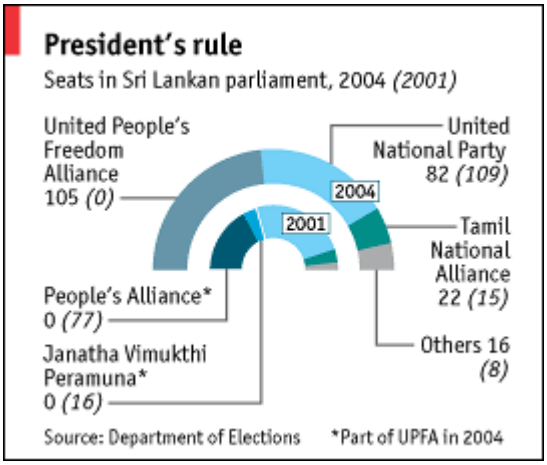

THE prime minister, Ranil Wickremesinghe, was the big loser in Sri Lanka's election on April 2nd. But there were several winners: his main political rival, President Chandrika Kumaratunga, whose party now has the chance to assemble a ruling coalition; the Liberation Tigers of Tamil Eelam, who for two decades have been fighting for their own homeland in the north and east; leftist extremists courting the votes of the Sinhalese majority; even the Buddhist clergy. All of this raises fears about the future of the two-year-old ceasefire with the Tigers and the island's fragile peace prospects.

Mr Wickremesinghe's United National Party (UNP) saw its share of the vote fall from 46% in the last election in 2001 to 38% and its seats in the 225-member parliament drop from 109 to 82. The biggest party, with 46% of the popular vote and 105 seats, is now an alliance of Mrs Kumaratunga's Freedom Party and the Janatha Vimukthi Peramuna (JVP), a movement which mixes Marxist economics with Sinhalese chauvinism.

There are two main explanations for the UNP's defeat. The economic benefits, such as massive foreign aid, that were expected to follow the ceasefire have yet to appear, largely because the peace process is stalled. And the sharp fall in the UNP's vote among its core middle-class supporters in the capital, Colombo, suggests the president's attacks on the party for being too soft on the Tigers struck a chord, as does the success of a new party whose candidates were all Buddhist monks (most Sri Lankan Tamils are Hindus).

Yet forming a majority coalition may prove tricky. The president herself, unlike the JVP and the monks, favours devolving power to the Tigers in return for peace and wants to resume talks. She sent a positive signal by naming as prime minister Mahinda Rajapakse, who is not seen as close to the JVP, rather than her adviser, Lakshman Kadirgamar, whom the Tigers hate.

The divisions of internal Sinhalese politics will widen further if Mrs Kumaratunga presses ahead with a plan to turn parliament into an assembly for constitutional change. She wants to abolish the executive presidency before Mr Wickremesinghe has a shot at the job. Such a move would be legally dubious—constitutional changes require a two-thirds vote in parliament, for a start—and would almost certainly be challenged on the streets as well as in the courts.

On the other side, the situation is hardly any clearer. The Tigers may have changed their stripes enough to contest these elections through their proxies in the Tamil National Alliance. However, voting in areas under their influence was marred by murder, intimidation and even mass impersonation. The Tigers wanted a mandate as the Tamils' "sole representatives" in the peace talks, though this ignored both other Tamil parties, and a serious split in their own ranks last month, after a Tiger colonel rebelled.

There is therefore no shortage of potential sources of instability and violence in the new political set-up. The optimistic, long-term view is that the extremes in Sri Lankan politics are now in the mainstream. But for the short term, it has been a dismal week for Sri Lanka.

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Afghanistan

Treasure hunt

Apr 7th 2004 | KABUL
From The Economist print edition

Fast-disappearing archaeological riches

Reuters

Going, going, gone

"IT IS the Pompeii of Central Asia!" claims one excited Spanish art historian in Kabul. Not that she plans to visit Kharwar, a vast, ancient city recently discovered under central Afghanistan's soil. Of nine policemen sent to guard the site late last year, four were murdered and the rest forced to flee. The killers were grave-robbers, many small armies of whom are plundering Afghanistan's rich heritage of Macedonian statues and Mongol statuettes, Persian mosaics and racy Buddhist friezes.

The scale of the plunder has encouraged many observers to reappraise the Taliban. The bumpkin clerics had a bad name for conservation, famously dynamiting the Bamiyan standing Buddhas—the world's biggest—in 1999. But they protected most of the country's 3,000-odd archaeological sites. Kharwar, for example, was mined by the Taliban to guard it against the looters who discovered the city in 1999.

Since the Taliban's demise, most archaeological sites outside Kabul have fallen prey to increasingly well-organised looting. At Kharwar, a warlord and his Mafia chums have de-mined the site and set the local peasants digging. Italian archaeologists were permitted to visit the city for one day last year, then informed that their security could no longer be guaranteed.

Sayed Raheen, the information and culture minister, says he requested 500 trained guards months ago but is still waiting to hear back from the finance ministry. He reels off the names of a few of the biggest thieves, who include pro-government militia leaders; former Taliban commanders; and a Pakistani general. The general, he says, caused uproar at a recent exhibition of the exquisite Bagram ivories at the Guimet Museum in Paris. He apparently declared that he had much better examples of the ivories in his living-room. More often, the stolen treasure ends up the property of oil sheikhs and futures traders, via European and American auction houses.

The UN culture agency, UNESCO, is meanwhile drafting paperwork to bring Afghanistan up to date with the latest UN convention banning illegal trade in antiquities and is also stabilising the giant Buddhas' plinths at Bamiyan. By the time the government is able to enforce the convention, however, Afghanistan's other archaeological sites are likely to be as empty as the plinths.

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Nepal

Regression analysis

Apr 7th 2004 | KATMANDU
From The Economist print edition

A triangular stand-off

Get article background

REVOLUTIONARY echoes resound around Nepal. Each day since April 1st, five political parties have brought tens of thousands of protesters on to the streets of the capital, Katmandu, waving flags and shouting slogans against the king. Several hundred, including several senior politicians, have had their heads cracked by the police. The stench of burning tyres hangs over streets where police and protesters have pelted each other with stones. Elsewhere, in the countryside, Maoist guerrillas are in a particularly bloody phase of their eight-year “people's war”, in which more than 9,000 people have died. But neither the feudal order nor the king himself show much sign of yielding.

The demonstrators oppose “regression”—an alleged attempt by King Gyanendra to renege on the 1990 constitutional settlement that limited the power of the Hindu monarchy and ended an earlier wave of protests against his predecessor. They have a point. Parliament was dissolved in May 2002 and five months later, the king sacked the prime minister. In Nepal's brief experience of democracy, political parties have earned a reputation for corruption and incompetence. Many, at home and abroad, were therefore prepared to give the king a chance, especially when his government opened peace talks with the Maoist rebels last year.

These broke down last August, however, as the ceasefire collapsed and the king rejected Maoist demands for a new constitution. “The direct rule of the king has failed,” declares Madhav Kumar Nepal, of the Communist Party (Unified Marxist-Leninist), known as the UML, one of the organisers of the protests.

Unsurprisingly, the king disagrees. He has been touring the country being “felicitated” by his people, many of whom regard him as an incarnation of the god Vishnu. On March 27th, he declared that “the strong bond between the king and the people” is “the cornerstone of Nepali nationalism”. But a family massacre, which brought the king to power in 2001, dented the monarchy's popularity. So have his autocratic tendencies.

He has promised elections within a year. The parties say that is impossible under the present regime. For a start, they want the king to sack his appointed prime minister in favour of an all-party government. But they differ over what should happen next. The UML wants elections. The other big party, the Nepali Congress, which is split, opposes them.

The Maoists benefit from the stand-off. In recent weeks they have mounted a number of big attacks on the security forces. Most observers believe that they can neither win nor be defeated militarily. Yet they and the king's forces fight on for propaganda advantage in case of an eventual resumption of talks.

From April 6th, the Maoists, who say they support the parties' protest, declared a three-day general strike in Katmandu, crippling city life. The parties say that they remain committed to a constitutional monarchy, whereas the rebels have just reasserted their republican ambitions. The king, if he wants his dynasty to persist, needs to make peace with both.

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North-East Asian diplomacy

Ties that grind

Apr 7th 2004 | TOKYO
From The Economist print edition

Economic links are driving new diplomacy in North-East Asia

AFP

Triangular Kawaguchi

ONE measure of the distrust among Japan, China and South Korea is that they often need other countries to give them an excuse to talk. The three nations' leaders and foreign ministers meet every year as guests of their distant neighbours in the Association of South-East Asian Nations. Japan's prime minister, Junichiro Koizumi, met China's president, Hu Jintao, twice last year—both times on the sidelines of other international gatherings. So it seems encouraging that they have now decided, as Yoriko Kawaguchi, Japan's foreign minister, announced this week, to start holding their own three-way powwow every year.

The question, of course, is whether they will find anything constructive to talk about. Mrs Kawaguchi's news followed her visit on April 3rd and 4th to China, to meet Wen Jiabao, the premier, and Li Zhaoxing, the foreign minister. It was a familiar stand-off, between a Japan that doesn't regret and a neighbour that won't forget. China's (and South Korea's) diplomats never tire of complaining about Mr Koizumi's regular visits to the Yasukuni shrine, where Japan's war criminals are honoured along with its dead soldiers. On April 7th, a Japanese district court raised constitutional doubts about the visits, though Mr Koizumi promised to keep going. Mrs Kawaguchi, in turn, protested at last month's landing by Chinese nationalists on the Senkakus, a disputed set of islands near Taiwan that Japan seized more than a century ago.

Although history and nationalism grab the headlines, however, there is another way to view all of this bluster. Instead of showing that closer ties are impossible, the mutual accusations and demands for apologies may be more in the nature of ritualistic display, while better relations are quietly constructed. Fast-growing trade and investment links, after all, are rapidly pulling North-East Asia's economies into closer contact (see article).

Business and economic ventures are already blazing the trail for the diplomats. On April 3rd, the three countries signed an agreement to promote a common Linux-based operating system to rival Microsoft in computer software. They also agreed to work together to look into a common standard for the next generation of mobile phones. More broadly, one hears far fewer complaints in Japan these days about rapid Chinese economic growth, since China is becoming an integral part of Japan's supply chain and is now a big consumer of Japanese wares.

None of this will alter the strategic wariness across the region, of course. China is a fast-rising rival to the United States; Japan is one of America's closest allies. Japan is under pressure to integrate itself into an American missile-defence shield that China opposes. North Korea has long had close ties with China; many Japanese consider it the closest thing they have to an enemy. And Chinese businessmen and political leaders are courting influence in South-East Asia, where Japan once held much greater sway. Despite these conflicts, however, North-East Asia is now one of the world's most exciting economic areas. As growth, trade and investment lower barriers in the region, it is only natural that these neighbours should lean over the fence occasionally to chat.

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Iraq

A wider war, a wider worry

Apr 7th 2004 | SADR CITY, BAGHDAD
From The Economist print edition

Getty

Iraq has entered a particularly bad patch. Is it a bloody blip or are the Americans sinking into a quagmire?

Get article background

IT HAS been one of the worst weeks for the Americans since they toppled Saddam Hussein a year ago. For the first time, they are facing a war on two fronts—against the Sunni Muslim insurgents who have long been fighting them in the triangle around Baghdad and now, perhaps more worryingly, against a substantial group of Shia Muslims whose wider community has hitherto been the Americans' main Iraqi Arab allies. Fortunately, Iraq's Kurds, in the north, who make up about a fifth of the population, are still friendly.

The sense is growing that the Americans need to turn things round fast, militarily and politically, if they are to ensure that events do not spin out of control. They have less than three months in which to choose a provisional government to take over much of the running of Iraq—unless they are to change their own timetable.

By April 7th, a series of uprisings that had spread in the previous three days across the Shia parts of the country, from the slums of Baghdad in the centre to Basra, in the south, was still going strong. The rebels' leader, Muqtada al-Sadr, a firebrand clergyman in his early 30s, was holed up in Najaf, the Shias' holiest city, almost daring the Americans to kill him.

If much more blood is spilled and the majority of Shias, not just Mr Sadr's rabid constituency of the downtrodden, turned against the Americans, that would spell real trouble. Mr Sadr claims he is fighting for Grand Ayatollah Ali Sistani, the Shias' most influential clergyman, whom the Americans have crucially kept on board, just. Some analysts say most Shias are now edging towards Mr Sadr's side. So far, the leaders of the mainstream Shia parties, and the more moderate clergy that they look to, including Mr Sistani, have been silent or equivocal about the Americans' decision to thump Mr Sadr's lot.

In the early hours of April 4th, in the biggest American assault since the conventional war a year ago, dozens of tanks and helicopter gunships had bombarded Baghdad's sprawling Shia townships. More than 1,000 American troops swarmed in, recapturing government buildings and police stations that Mr Sadr's “Mahdi army” had taken over. At least 50 Iraqis were killed in Baghdad alone, for the loss, in the next three days, of at least eight American soldiers.

At least the Americans' British allies had managed, by April 7th, to dislodge—by negotiation—several

hundred Shias who had taken over the main government building in Basra. But in several smaller towns in the south, Mr Sadr's militiamen still controlled the streets. Demanding that foreigners, especially Americans and Britons, should leave Iraq forthwith, Mr Sadr's followers marched on the American-led coalition's military base in the outskirts of Najaf. In other Shia towns, Italians and Bulgarians traded fire with Mr Sadr's black-shirted followers.

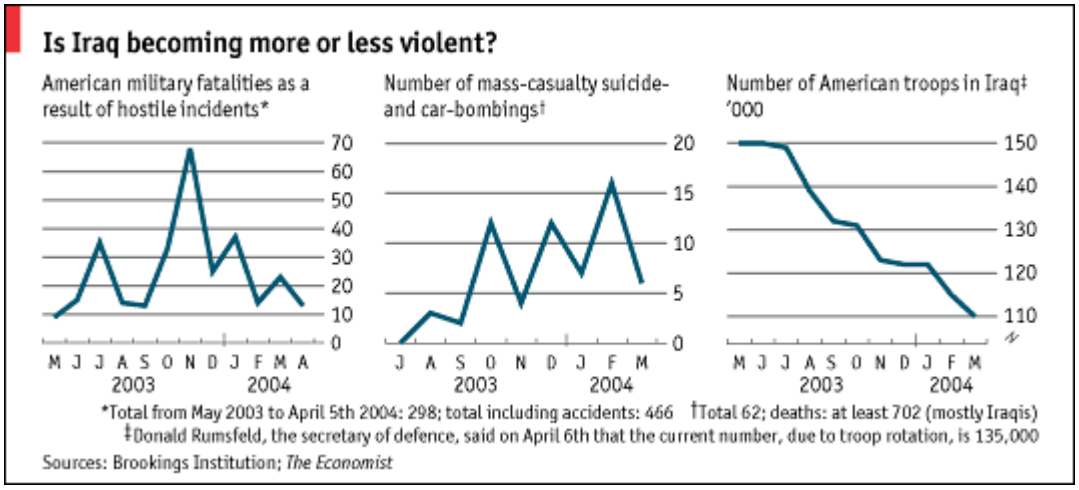
On the other front, in the longer-fought campaign against Sunni insurgents, the going has got tougher too. American marines were trying to regain control over Fallujah, to the west of Baghdad, where last week a watching world had seen the slaughter of four American contractors and the mutilation of their corpses. But further west, in Ramadi, another disaffected Sunni town, the Americans took their heaviest casualties on the ground so far, when a dozen marines were killed in an assault on an American camp.

A striking feature of the turbulence was the failure of Iraq's fledgling police to stand up to the rebels. Though their numbers have risen from 30,000 last July to over 78,000 today, they are clearly no match yet for determined militiamen such as those of Mr Sadr. In Baghdad this week, they simply abandoned their stations. Elsewhere, some switched sides.

Just two little jobs

The Americans have two immediate tasks. First, and most urgently, they must quell Mr Sadr's uprising without spilling so much blood that the entire Shia community joins the revolt. Second, they must redouble their efforts to create a provisional Iraqi government that has a chance of gaining a modicum of acceptance.

Those two tasks may be connected. Paul Bremer, Iraq's American governor, says Mr Sadr must be arrested. But it is possible, if the rebellion is to be brought to an end within the next few days or so, that the Americans might have to eat humble pie and negotiate with him. He might then demand posts in an emerging transitional government which, under the latest plan, would hold office until a general election takes place to choose a constituent assembly by the end of next January.



George Bush insists his resolve is unshaken (see article). Since the last big upsurge in violence, in November (see charts), Iraq had grown a bit less bloody. But it remains far too high for the comfort of ordinary Iraqis or foreign investors. This week's Baghdad Expo trade fair had to be postponed. The main roads to Jordan and Syria have been closed.

But the politics needs fixing too

To show that he means business on the political front, Mr Bremer has been speeding up the transfer of authority to Iraqis. After handing the health ministry over to Iraqi administration, he has now declared that the education and public-works ministries are under Iraqi control. And he has appointed Iraqis as defence minister and as head of intelligence.

Yet the search for a provisional government is proving tricky. The Americans are counting on Lakhdar Brahimi, the UN's special envoy now visiting Iraq, to help find a consensus to produce a government in

which all Iraqi groups feel represented. But Mr Brahimi has no magic wand, and the UN, its reputation tarnished in many Iraqi eyes by its alleged misuse of Iraq's oil revenues, lacks authority.

A three-man presidency is still on the cards. The three most-mooted candidates are Adnan Pachachi, a Sunni who was once foreign minister; Ibrahim al-Jaafari, who heads Dawa, still probably the most popular Shia party; and Massoud Barzani, one of the Kurds' two main leaders. It is less clear who might be prime minister. Nor has Mr Bremer decided how to create a transitional assembly. Most Iraqis and Americans involved hope that a UN resolution will give a stamp of approval to whatever government emerges.

Can Mr Sadr be brought into the game? For all his impulsive ranting, he counts for more than the Americans and his Shia rivals have liked to acknowledge. The scion of Iraq's most prominent clerical family, he wins much kudos because, unlike most of the present Governing Council's members, he stayed in Iraq to fight Mr Hussein. His father, shot in 1999, was a grand ayatollah who preached against Baathist rule. An uncle was a founder of Dawa. An ancestor was prime minister under the British.

He appeals to Iraq's have-nots, who number many millions. In his sermons he plays on Iraqis' sense of victimhood. When Mr Bremer recently shut down one of Mr Sadr's newspapers, which had incited Iraqis to attack American troops and blamed America for a car-bomb attack that killed over 50 policemen two months ago, Mr Sadr said that Muslims were being censored. When the Americans arrested one of Mr Sadr's friends on a charge of murdering a prominent rival cleric last summer, Mr Sadr accused Mr Bremer of manipulating the justice system.

Plainly, Mr Sadr is not an easy man to deal with. But if he were killed or turned into a martyr, his legacy might be bloodier still. He has certainly become a bigger piece in Iraq's perplexing jigsaw.

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Iran

A political tremor

Apr 7th 2004 | BAM
From The Economist print edition

The hopeful consequences of real democracy in Bam

Get article background

BEHIND the dark clouds, a glimmer of hope. Last week, the mayor of Bam confessed to aid workers that Iran's government had done a rotten job of helping survivors of the earthquake that razed his city in December. Surprise at the mayor's candour turned to delight at the prospect of local democracy when a well-known sociologist, Siyamak Zand-Razavi, stood up to announce an earthquake of his own. For the authorities are supporting his proposal that the survivors should elect petitioners to present their concerns to the government. The authorities hope this will prevent a recurrence of last month's rioting, when buildings were gutted and police fired on demonstrators. For his part, Mr Zand-Razavi is attacking the secrecy and paternalism that have made Bam a byword for official failure.

Most of the people in the tens of thousands of tents that line the roads and fill the empty spaces of the shattered city are jobless and glum. Not long ago they regarded the government's main relief agencies as their saviour; now they curse it. UN people rue the government's failure to communicate with the people. From the beginning, government officials neglected to impress on the survivors that most of the almost $500m pledged by foreign donors would come, not in the form of handouts to the needy, but as help towards rebuilding. More recently, the Iranian authorities promised to provide temporary houses for all by April 5th, yet only a few have been built.

Squabbling between different departments has contributed to the gloom. It took an unseemly public outburst in March before Iran's Red Crescent Society secured nearly $2m of international aid that the foreign ministry had received but seemed reluctant to hand over. Most survivors believe that powerful institutions have pilfered the juiciest aid.

Behind the disquiet is a collision between two cultures: Iran's nanny state, which resents foreigners, and the freewheeling agencies that disburse international aid. Yaqoub Derijani, a Bam councillor, blames foreign organisations for raising expectations and causing a “division between people and the state”. The truth is that sustained scrutiny has highlighted Iran's crippling insularity. Many more temporary houses would have been built, were it not for the authorities' insistence that Iranian firms should build them. Mindful of its obligations to Iran, the UN is said to have earmarked as much as $1m for the government's efforts to reunify families split up in the quake's chaos, yet UN workers on the ground are quietly seeking out non-governmental outfits better able to do the job.

Despite misgivings, the authorities have had to tolerate unprecedented outside interference. The UN is using school reconstruction as a pretext for modernising teaching methods. The government is being obliged to stifle its ingrained hostility to independent do-gooding bodies, whether foreign or local.

By the end of this year, Mr Zand-Razavi predicts, Bam will have enshrined popular participation as never before in Iran. It will have two representatives, a man and a woman, for every 30-40 households, plus an operating staff of 120 for the town. Bam's representatives may be the only elected Iranians to escape verification for their loyalty to revolutionary tenets, a process that led to the disqualification of over 4,000 candidates in February's general election. The possible consequences of more democracy in Bam have not been lost on the old guard of revolutionaries. More reverberations may be expected.

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Israel and Palestine

Might Hamas ever negotiate?

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From The Economist print edition

The violent Islamists of Hamas may be changing their tune

Get article background

HALFWAY through the Jews' eight-day Passover holiday, Israelis were nervously awaiting the lash of Islamist retribution. Palestinians expect more violence too. Penned inside their towns and territory by the Israeli army, restrictions against them have been tightened since Israel's assassination last month of Sheikh Ahmed Yassin, leader of the Islamist Hamas movement.

What can senior Palestinians do to help stop the cycle of violence? Officials of Hamas and other Palestinian factions, including Yasser Arafat's Fatah group, have been meeting in Gaza City to discuss how to respond to the decision last December by Israel's prime minister, Ariel Sharon, to withdraw from all or most of the Gaza Strip, the disconnected coastal part of a would-be Palestinian state, within a year or so. The Palestinians may be about to change their tactics.

EPA

Rantisi's new tune

Dr Abdelaziz Rantisi, Sheikh Yassin's successor as leader of Hamas, which is particularly strong in Gaza, has generally been thought even fiercer in his determination to fight for the destruction of Israel. He has also been less keen to co-operate with Mr Arafat's Fatah group or with the Palestinian Authority (PA), which is supposed to run the fledgling state and which Mr Arafat now heads. Dr Rantisi has sworn revenge against the Israelis for killing the sheikh. Israel tried to kill Dr Rantisi last June and may have another go.

But Hamas under its new leader is staking out three positions. First, unlike the PA, which views Mr Sharon's Gaza withdrawal plan with trepidation, Hamas extols it as a victory for armed struggle. So, according to pollsters, do Palestinians of all political stripes. Second, Hamas says it will hold its fire in Gaza, though not necessarily in the West Bank (the bigger part of a Palestinian state) or in Israel proper, once the Israeli withdrawal begins. Third, Hamas says it wants a new “partnership” with its rivals who run the PA, particularly Mr Arafat's Fatah, enabling them to run Gaza together once the Israelis go.

This last proposal marks a change. In the past, Hamas has refused to join a PA administration since the authority is bound by the terms of the Oslo accords of 1994. Hamas rejected these accords, not least because they called for the suppression of armed movements such as itself. More recently, however, Hamas has begun to shift. “A week before he was killed, Sheikh Yassin told me that Hamas would no longer be an opposition after the [Israeli] withdrawal. We would be part of the government,” says a senior Hamas man.

Why the change? Pollsters now reckon that Hamas, thanks both to its armed campaign against Israel and to its welfare network, is the most popular group in Gaza. At the same time, Fatah is in disarray and the PA has lost just about all its authority. Hamas sees some sort of power-sharing as a useful way to prepare for new Palestinian elections, where it can translate its popularity into political power.

Other powerful Palestinians have reached similar conclusions for different reasons. Mr Arafat now says he would welcome Hamas in the PA. Mohammed Dahlan, a Fatah man who used to run the PA's strongest police force in Gaza, is also in favour. In 1996 his police launched a massive clampdown on Hamas. Mr

Dahlan gave up his job two years ago, but has long argued that Fatah should keep Hamas down, while Mr Arafat has often wavered.

But Mr Dahlan may be changing tack too. “Our experience together—I mean the international community, the PA, Israel, the United States—has failed,” he now says. “We [Palestinians] have to change our way of thinking. We have to elect a new leadership.” If new leaders were readier to talk to Hamas, he says, the PA could reassert control over the Gaza Strip and the West Bank. Israel's government and its American allies are dead against the idea. Mr Sharon has banked on destroying Hamas's Gaza leadership, by assassination if need be, as the price of Israel's withrawal. Yet clobbering Hamas has not prevented its rise. Some secular-minded Palestinians, such as Mr Dahlan, now seem to think that the way to contain Hamas is by helping it to change from a fighting movement into a political party, opposed doctrinally but not militarily to Israel's existence.

If, runs this argument, the Palestinians were able freely to elect their leaders, including some from Hamas, they might be able to make the PA a more efficient body with a better chance of re-establishing order among the Palestinians. The PA, with Hamas within it, might then be better able to control the violence (and stop the suicide-bombs, among other things) and allow negotiations with Israel to resume.

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South Africa

A town like Alice

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From The Economist print edition

Once a model apartheid town, Alicedale shows the impact—good, bad and ugly—of South Africa's first decade of democracy

A QUARTER of a century ago, P.W. Botha, then South Africa's prime minister, ordered his flunkies to make a video showing that apartheid worked. He told them to find a model town to illustrate the idea that “separate development” was good for both black and white South Africans. After a long search, they chose Alicedale, a quiet riverside settlement in what is now the Eastern Cape province.

Alicedale's propaganda value lay in the fact that the adjoining areas where blacks lived were less miserable than average. In its latter days, the apartheid regime often tried to buy black acquiescence with small public-works projects. Alicedale's blacks may not have had the vote, but they enjoyed tarred roads and good sanitation. The video was shown to civil servants across the country, some of whom may have been convinced.

It is now ten years since South Africa became a proper democracy. Next week, the country will hold its third election at which all adults can vote, regardless of colour. The petty restrictions on where non-whites can live, travel and eat are long gone. The main liberation movement, the African National Congress (ANC), is sure to be re-elected with a huge majority.

And yet, at first glance, not much seems to have changed in Alicedale. The town is still divided, de facto, though not de jure. The whites still live mostly in the centre, with its tall gum trees, sturdy brick homes and shady verandas. The people of Transriviere, a township of smaller homes across the river, are almost all “coloured” (ie, of mixed race). Up the hill is Kwanonzwakazi, where blacks live mostly in corrugated-iron shacks. Nearby is the Mandela squatter camp, which is really poor.

Black families in Mandela camp and Kwanonzwakazi are mostly unemployed, speak Xhosa, play soccer and send their children to a school with no white pupils. In the last decade, the government has built them 200 new homes, but they are still far less prosperous than the Afrikaans-speaking coloureds of Transriviere.

The coloureds tend to own their brightly painted homes, with flowery gardens, telephones and, for some, satellite dishes on the roof. Transriviere has a new clinic, a library and an ambulance station. The school is reserved for Afrikaans-speaking pupils, who wear starched black-and-white uniforms and play rugby and cricket, not soccer.

And whites? Though few admit it, most backed apartheid, by voting for the National Party. Many have now emigrated, complaining that multiracial rule has brought unchecked crime and the “reverse apartheid” of positive discrimination. In Alicedale, the owner of Fox's café says the town now has “no people”. She means almost no whites. In the past decade all but a dozen white families have left. The red-brick whites-only school has closed.

Race relations have improved for those who stayed, but they could hardly have been worse. In the old days, non-whites entered the butcher's shop by a side door, and none could sit in restaurants or use white public toilets. They could not own property in the white zone, and they had to leave the town centre before dark. “In the past we wouldn't even look at a white man,” says a coloured resident, “or he would shout: ‘I'm your boss!’”

“We no longer fight with each other, we know each other. We live in a just society, where one is equal to the other,” says Andile Ncula, renovating his small house on the edge of Mandela camp. “Now all people are free to stay in town and to move around at any time. Life is a bit better.”

Facing the beast

Rather than seek revenge, South Africans have “looked the beast [of history] in the eye,” says Archbishop Desmond Tutu. The Truth and Reconciliation Commission, over which he presided, helped heal some wounds, by granting amnesty to the perpetrators of politically motivated crimes, so long as they confessed, and by compensating some of the victims. Both the commission and South Africa's impressive constitution, which enshrines individual and property rights, helped bolster the country's most important achievement since 1994: political stability.

EPA

With re-election assured, President Mbeki is feeling sprightly

Ten years ago, civil war seemed possible. In the 1980s and early 1990s, thousands were killed in clashes between Zulu supporters of the Inkatha Freedom Party (IFP) and backers of the multiracial but Xhosa-dominated ANC. Today, though politics is still split along ethnic lines, there is virtually no political violence.

The ANC is popular and in charge almost everywhere (including Alicedale). It has over 70% of the seats in the national parliament, and may do as well at the election on April 14th. The president, Thabo Mbeki, is certain to win a second (and final) five-year term. His party may even win outright control of the two provinces out of nine where it now rules in coalition: KwaZulu-Natal and the Western Cape.

A recent survey found that two-thirds of the population think the ANC is too strong, though they will still vote for it. To be fair, it is a broad church, including not only communists and trade unionists but also pragmatic capitalists, such as Mr Mbeki. It makes alliances of convenience, even joining with the New National Party, the remnant of the one which dreamt up apartheid, to rule the Western Cape.

The opposition is weak but not insignificant. The main opposition party, the Democratic Alliance, which appeals largely to whites, has made an electoral pact with the IFP, though the two parties have little in common besides a desire to slow the ANC juggernaut. Confusingly, the IFP is currently allied with the ANC in the national government, but that awkward marriage may not outlast the election. In practice, the most effective opposition often comes from single-issue activists such as the Treatment Action Campaign, which lobbies for better AIDS treatment.

The ANC is popular in large part because it is the party of liberation. The generation known as the “born frees”, who have no memory of apartheid, could eventually drift away from it; much will depend on how it handles the economy. To date, its record has been mixed.

The growth rate has more than doubled in the past decade, though that sounds better than it is. Misrule and international trade sanctions had kept the apartheid economy stagnant. Since 1994, average GDP growth has been 2.8% a year—better, but not stellar, given population growth of perhaps 2%.

The government has enacted some wise and painful reforms. The old state-heavy, debt-ridden, tariff-protected economy, where profits from gold-mining paid for a bloated civil service, has gone. Trevor Manuel, the finance minister, has long boasted that South Africa could more easily meet the Maastricht

conditions for Europe's single currency than many European countries. National finances are in order, and debt payments no longer suck up the largest share of government spending (education does). Tiny foreign reserves are growing, which should make South Africa's currency, the rand, less volatile.

Though foreign investment is sluggish, it is widely agreed that the economy is in competent hands. Inflation, interest rates, marginal tax rates and the deficit are at historic lows. A poll of business confidence touched a 15-year high in March. International investment ratings, productivity, exports and tax revenue are surging.

An economy whose fortunes once rose or fell with the gold price is increasingly diverse. Minerals still matter, but services (60% of GDP and growing) and manufacturing are far more important. Tourism, banking, car exports and insurance are flourishing. But cutting tariffs and subsidies has had a cost.

With its large reservoir, Alicedale used to provide a watering–stop for steam trains owned by Spoornet, the national rail firm, which was notorious for employing any ill-educated white person who otherwise could not find work. Spoornet ran labour-intensive steam trains as recently as two decades ago but closed its operations completely in Alicedale in 1996, as in many small towns.

“After the railways went, everything collapsed,” says a resident. Almost every small business shut. By 2001 unemployment in Alicedale was over 90%. “There are people of 28 years who have never worked a single day,” says a resident. Large numbers of bored young men and women sat idly in the shade watching days pass.

Nationally, things are not so bad, but still grim. Counting only those who are actively seeking work, the jobless rate fell slightly, to 28%, in March. By a broader measure, unemployment remains stuck at over 40%. Informal work is being created; there was a net rise of 2m jobs between 1996 and 2002, says the government. But the labour force is growing faster, swollen by migrants, including perhaps 2m Zimbabweans fleeing tyranny.

In Alicedale, as in South Africa generally, people increasingly depend on the dole. Africa's most generous welfare state now provides pensions, child grants and aid for the disabled and those with acute forms of AIDS. A monthly old-age grant of 700 rand ($110) is often shared by a large extended family. Without faster growth, small towns will be sustained only by such welfare payments, subsidised housing and crime. Everywhere in South Africa, violent robbery is distressingly common. As a young man lounging on a street corner puts it, “We survive from stealing, that's the truth, because there's no jobs.”

Crime also flourishes because the police and the justice system are overwhelmed. Only when residents hired a private security firm a year ago did crime start to fall in Alicedale. And only when huge court backlogs are cleared will the justice system start to work.

Rapid economic growth would solve a lot of problems. Will it happen in the next decade? Optimists can point to Alicedale. Barely a year ago it was a ghost town. But now, its main road is being resurfaced, dozens of defunct businesses are re-opening, and house prices are up tenfold in the past year. Whites are reappearing, too.

The lifeline was a mixture of private and public investment. A joint-venture by a luxury safari group called Bushman Sands and the Eastern Cape provincial government is tapping into South Africa's fastest-growing industry, tourism. Disused farms have become a safari park. The abandoned whites-only school is now a luxury hotel with an 18-hole golf course watered by the reservoir that once served steam trains. The old station is a tourist centre and restaurant. One permanent job is said to be created for every eight foreign visitors to the country: over 6.4m tourists came to South Africa in 2002, vastly more than in the days of apartheid isolation. Last year the industry again grew slightly, despite a strong rand.

But the lack of skills is a worrying bottleneck. The developers in Alicedale pledged to employ only local (by implication, black) workers. This is politically astute: the government urges and obliges firms to pursue “black economic empowerment” by hiring more blacks and transferring equity into black hands. But Bushman Sands has found (as have many South African firms) that too few blacks have the right qualifications. It has trained locals as chefs, carpenters and dancers, but hired outsiders, almost all white, for many managerial or technical roles.

Nationally, some 300,000 skilled vacancies are unfilled, estimates Iraj Abedian, an economist at Standard Bank. A decade of efforts to train and educate more workers has achieved little. The proceeds of a payroll tax for skills-training have been poorly spent. On-the-job training would be more useful, but firms are

reluctant to hire, because labour laws make it so hard to fire bad workers. Labour costs are also higher than in many middle-income countries: strong unions run a centralised bargaining system, which imposes wage settlements agreed with large firms on small firms in the same industry.

Ghost at the table

To make matters worse, many skilled workers are disappearing. Nurses, teachers and computer experts, among others, are lured abroad by higher wages. Other educated young people are being buried. When your correspondent visited the overflowing cemetery in Kwanonzwakazi, two new graves were being dug into a pathway between other graves. One was for a 17-year-old boy who had “become very thin,” said the grave-diggers. Metal signs show that most of the recently deceased were under 40. Nine were buried in the first two and a half months of this year, an awful rate for a town of barely 5,000.

Unbelievably, some still doubt that AIDS is a big problem. Sceptics include Mr Mbeki. Some 11% of South Africans, 5m, are infected with HIV: the disease threatens, literally, to decimate the population. A study of death certificates published in March by the Medical Research Council confirms the nature of the epidemic. More South Africans die aged 30-34 than in any other age group. For that age, deaths rose 15% last year. South Africa is in the “death phase” of its epidemic, as more people die than are newly infected.

The victims are mostly young, active people. A government report leaked in late March says that 100,000 civil servants are HIV positive. That threatens the state's capacity to function. New figures show school enrolment rates stopped rising five years ago, after HIV cut fertility. Life expectancy is tumbling.

The government does, at last, have some good policies in place to treat the sick. It said in November that modern anti-retroviral drugs, finally, will be provided in clinics and hospitals, to keep the HIV-infected alive and to make them less infectious. This month it announced 23 sites where drugs will be handed out. But years of delay mean too few places are ready to do so.

A tragic waste of freedom

“The government gave the go-ahead but nothing has come. There is no place here to get those drugs,” says Marcello Fritz, Alicedale's young postmaster. He offers to name “30 to 40” people who he thinks died of AIDS in the past two years. “My friends are dying like flies. They lose weight, get sores on their body and die.”

While they wait for drugs, the people of Alicedale can do little more than deal with the symptoms of the epidemic. Flora Louw, who runs the town's clinic, says AIDS is the biggest killer; but without anti-retrovirals she spends her time instead battling tuberculosis, and other diseases that exploit ailing immune systems.

The reason for delays in the distribution of anti-retrovirals is the dithering leadership (with Mr Mbeki's approval) of the health minister, Manto Tshabalala-Msimang, who continues to recommend quack remedies to HIV patients. Let them eat African potatoes and olive oil, she says.

Alicedale's prospects, and by extension South Africa's, are coloured by the impact of AIDS. If Mr Mbeki fails to tackle the epidemic during his second term, the future looks grim. But if he succeeds, it may be time to order another video.

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French foreign policy

Of entente, understanding and Verständnis

Apr 7th 2004 | PARIS
From The Economist print edition

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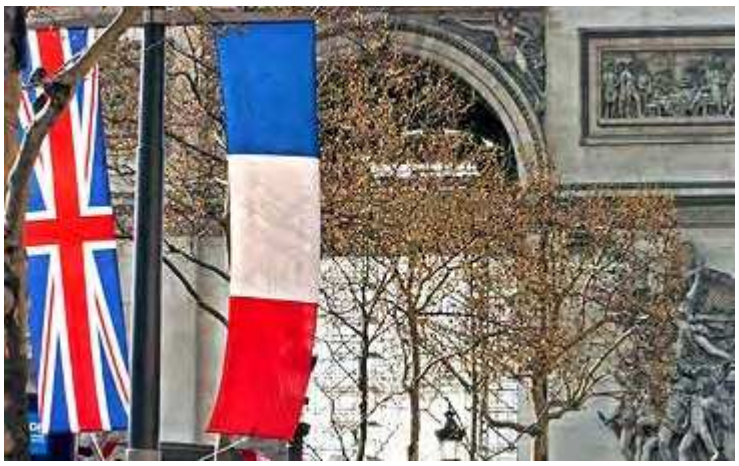

Beyond the jamboree to mark the centenary of the entente cordiale lie some awkward choices for France's foreign policy

Get article background

THE Union flag flutters up and down the Champs Elysées. *Le Monde*, a left-leaning newspaper, devotes its entire 90-page magazine to Britain. Queen Elizabeth II's visit to France this week kicks off six months of festivities to mark the centenary of the *entente cordiale*, a colonial-era deal between Britain and France that ended centuries of military hostility. Tony Blair, Britain's prime minister, visits Paris next month. Jacques Chirac, the French president, goes to London in the autumn. The awkwardness is that these resolutely upbeat celebrations take place at a time when the Franco-British relationship is one of deep ambivalence.

Based on a rapprochement secured in part by the francophile Edward VII, the queen's great-grandfather, and Théophile Delcassé, French foreign minister, the 1904 pact reflected the two colonial powers' desire to resolve long-running territorial disputes. But the two also shared a common suspicion of Germany's growing military and naval strength. At the time, France's relationship with Britain was its most important foreign alliance. They were two fellow imperialists. Their rivalry, and mutual suspicion, ran deep.

Today, France's links with Britain grab relatively little attention. Even in warm moments, the relationship pales next to that between France and Germany. Yet these are shifting times. Mr Blair is in some ways more open towards continental co-operation—for which read working with France and Germany—after losing an Atlanticist friend in Spain's José María Aznar, and with popular disillusion at home towards the Americans over Iraq.

Meanwhile the French realise that, in a European Union of 25, the Franco-German motor is not going to be enough to preserve their influence. Michel Barnier, their new foreign minister, was formerly a European commissioner and thus has greater interest in EU affairs than did his predecessor, Dominique de Villepin. Mr Barnier also shares Mr Chirac's desire to build the EU up to balance American power. The big question for the French is how to square their need for the British to fortify the Franco-German duo with their distrust of Britain's pro-American instincts.

France and Germany are enmeshed in a way that would be unthinkable for the French and British. Chancellor Gerhard Schröder even invited Mr Chirac to stand in for him at one EU summit. Politicians and

officials are in regular contact across the Rhine. A joint youth secretariat organises school exchanges. The adviser on Germany for Jean-Pierre Raffarin, French prime minister, is a German diplomat, Christoph Gottschalk. Hundreds of Germans have graduated from France's Ecole Nationale d'Administration, its elite civil-service college. This year, for the first time, three are joining the French civil service.

In short, working with Germany has become the first reflex of every French official. For the past two years, the pair have carefully secured agreement ahead of any big international meeting. They stand shoulder-to-shoulder over the new European Union constitution. They are now trying to thrash out differences over the entry of Turkey into the EU, an unpopular idea in France (and in some quarters in Germany, too). “On such a major issue”, says one official, “there cannot be any Franco-German disagreement.”

For all this teamsmanship, however, there are two weaknesses. The first is that the Franco-German relationship works only because the two sides work so hard at it. “It's the result of will and effort, not natural instinct,” comments one top French diplomat. Ordinary French people do not voluntarily drift towards Germany, often preferring to go to Britain (or even America). Young Frenchmen head for jobs in London's banks, restaurants and football teams, not to Frankfurt or Berlin. Mr Raffarin's daughter has studied in Britain; a step-daughter of Nicolas Sarkozy, the new finance minister, is also studying there.

When Franco-German interests coincide, as they did over Iraq, or over junking the euro's stability pact, the alliance looks strong. Mr Chirac and Mr Schröder may not have much mutual affection, but they are deft politicians who realise their common interest. French officials are keenly aware, however, that Germany's interests may not always be so neatly aligned.

This touches the second weakness: uncomfortable as it is, the French realise that they cannot use the Franco-German axis to steer an EU of 25 as they did the original six. Already, over Iraq, the newcomers have found Mr Chirac's bullying intolerable. Used to co-running the club, the French find meetings of 25 exasperating. As one French official puts it: “Every time we come back from Brussels, we say that the system's impossible.”

Mr Chirac's solution is what he calls “pioneering groups”. The most important of these today is European defence. Which is why the French have had to turn to Britain, a fellow military power, rather than to Italy, Spain or others. The French are keen on more ad hoc trilateral projects, such as the joint French, British and German foreign ministers' effort over nuclear proliferation in Iran, and on informal trilateral talks that increasingly take place in the corridors of meetings of the full 25. The small countries may not like this, but at least it gets things done.

The really nettlesome issue, however, is how all this relates to America. France's impulse behind its European ideas remains the desire to balance American power. Mr Chirac envisages a future “multipolar” world, in which American power is countered, like it or not, by China or even Russia. Since Europe, he argues, cannot afford to be left out, it needs to equip itself militarily—and not rely exclusively on the American-run NATO. Preparing France for such a world explains why he spends so much time unapologetically wooing China and Russia.

And this is where the French desire to get the British on side tends to run into trouble. The very word “multipolarity” still rankles with the Americans, who have not forgiven Mr Chirac for his unyielding hostility to war in Iraq (though President George Bush is visiting Paris on June 5th, before joining the D-Day anniversary the next day). And the British are wary of anything that might upset the Americans. As it is, the British have been treading delicately around American sensitivities over European defence. This annoys the French, who find such deference to America unmanly in a sovereign power.

The French know that, when forced to choose, Britain believes that its interests are best served by aligning with America. This is always going to make it an uncertain European partner. For all the goodwill this week, Franco-British trust does not run deep. A poll in *Libération* this week showed that 84% of the French say they trust the Germans, but only 51% trust the British. And even the British trusted the Germans more than they did the French. Plus ça change.

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France, Britain and monarchy

Roi Jacques

Apr 7th 2004 | PARIS
From The Economist print edition

The French president is a real king

ROBBED of their own monarchy, the French have refined the art of ogling everybody else's. They pioneered the celebrity royal press. *Point de Vue*, doyen of royal-watching titles, was launched in 1945; *Paris Match*, which spices up current affairs with royal photo-shoots, began in 1949. The French made celebrities out of the royals long before *Hello!* and reality television made celebrities out of everybody else. So perhaps it is no surprise that Britain's queen has made more state visits to France—this week's is her fourth—than to any other country.

The fascination with royals stems partly from their absence at home. “They are exotic, something we don't have,” says Vincent Meylan, head of royal news at *Point de Vue*. “Watching the British royal family is like watching a soap: East Enders chic.” Besides the wayward Windsors, Monaco's royals furnish a reliably colourful cast of characters.

The French also feel connected to British royal history. Not only because they supplied a good number of English kings and queens, from William the Conqueror on, but also because Princess Diana died in a car crash in Paris. Even now, people leave little messages and flowers on the bridge above the tunnel where it happened.

Then there is the flattery of visitors who speak your language. In the mists of pre-Iraq history, the French were charmed when Tony Blair, Britain's prime minister, spoke in French to the National Assembly. Edward VII's fluency in the language, not to mention his penchant for Paris salons, helped him to build trust between the British and the French before the 1904 *entente cordiale*. The queen is also fluent. Perhaps powered by a state dinner the previous night of *foie gras d'oie à la gelée de sauternes* and *cailles farcies aux morilles*, she gave her speech to the Senate in French.

Maybe this republican nation's ease with monarchy is not so odd, however. After all, the French do have a monarch of sorts—but theirs is elected and has real power. Indeed, the president of France enjoys more sweeping powers than any other democratic European head of state. Only last week Jacques Chirac was on television talking about how he—by implication, not his prime minister—had picked the ministers in the new government. With a real monarch in the Elysée, who needs a titular king?

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Terrorism in Europe

Fighting back

Apr 7th 2004 | MADRID
From The Economist print edition

The hunt for terrorists in Spain and France

“THE inner circle of people who committed the terrorist acts are either behind bars or dead.” Thus the Spanish interior minister, Ángel Acebes, the day after up to six Islamist terrorists suspected of carrying out the train bombings in Madrid on March 11th had blown themselves up after being cornered by police in a flat in the Madrid suburb of Leganés on April 3rd. Yet Mr Acebes's words did little to reassure Spaniards. Their mood was of nervous expectation, after Mr Acebes conceded that as many as three suspected terrorists might have escaped, possibly with explosives, before the police had managed to cordon off the area.

EPA

A terrorist lair

Security has been ramped up everywhere. Police patrolled the Madrid metro for the first time, and security at airports, nuclear plants and in Seville, where pilgrims are gathering for Easter processions, has tightened. Last week the government said it would use the army to guard the railways, after explosives were found on the Madrid-Seville high-speed track. A total of 16 suspects are now in custody; 15 have been charged, 11 of them Moroccans.

The terrorists were tracked to the flat in Leganés thanks to their use of pre-paid mobile-phone cards from the batch that had been used to detonate the Madrid train bombs. But the suspects refused to give themselves up and, as a unit of special police broke in, one man inside detonated a huge bomb that blasted masonry and body parts across the street. One policeman was killed. Police found 200 detonators and 10kg (22lb) of explosives in the rubble. The body of one suspect was found in the block's empty swimming-pool, wearing an explosive belt of the type used by Palestinian suicide-bombers.

Four corpses from the blast have so far been identified. One was Serhane Ben Abdelmajid Fakhet, known as “the Tunisian” and considered by the investigating magistrate to be the “mastermind and co-ordinator” of the Madrid attacks. Another was Jamal Ahmidan, a Moroccan nicknamed “el Chino” or “Mowgli”, the suspected leader of the bombers and one of six men for whom arrest warrants were issued the previous week. A third, Abdennabi Kounjaa, was on that list; the fourth, Asri Rifaat Anouar, a Moroccan, was not. Three fresh suspects were later named.

Two days after the Leganés blast, 13 suspected members of the same terrorist group that Spain says carried out the Madrid bombings were arrested in France. They are suspected of involvement in the bombings in Casablanca last May that killed 33 people (plus 12 suicide-bombers). They were not directly involved in the Madrid bombings, said France's interior ministry. But they belonged to the same outfit, the Moroccan Islamic Combatant Group (GICM), thought to be behind them.

The climate of fear was increased by a letter faxed to a Spanish newspaper, *ABC*, purportedly from al-Qaeda, which threatened more attacks that would “make blood flow like rivers” in Spain. The letter, signed in the name of “Ansar al-Qaeda” by Abu Dujana al Afgani, the name used in a videotape claiming responsibility for the train bombings, said that Spain should withdraw its troops from Iraq and Afghanistan or face “hellish” consequences.

In fact, the Socialist prime minister-elect, José Luis Rodríguez Zapatero, who is due to take office later this month, has promised to honour his pre-election pledge of withdrawing the troops in Iraq unless the UN takes charge by June 30th. To show his determination to fight terrorism, however, he has promised to double the number of Spanish troops (from 125) in Afghanistan. But Mr Zapatero still has work to do to persuade Spain's allies (and enemies) not to misconstrue the withdrawal as a victory for terrorism. Meanwhile, Spanish troops came under attack at the Al-Andalus base near Najaf, in Iraq, the day after the Leganés blast.

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Central European nationalism

Populist watch

Apr 7th 2004 | VILNIUS
From The Economist print edition

A populist resurgence in central Europe

Get article background

AS IF by some compensatory principle, central Europe lost one pariah president this week just as another loomed into view. The departing figure was Rolandas Paksas, the scandal-swamped president of Lithuania, dismissed by a parliamentary vote on April 6th after 15 months in office. His main sin was to surround himself with ill-qualified cronies who had interfered in government decisions at the behest of business and perhaps even criminal interests. The favourite to succeed him is Valdas Adamkus, a decent and elderly centrist who was Mr Paksas's predecessor as president; or, if he chooses to run, Algirdas Brazauskas, another ex-president who is currently prime minister.

A new candidate has emerged to take over as Europe's least-admired head of state west of Minsk: Vladimir Meciar, who won a first round of voting for Slovakia's presidency on April 3rd and looks likely to win the run-off on April 17th. As prime minister of Slovakia until 1998, Mr Meciar was a backward-looking bully and at times scarcely a democrat, though he claims to have changed for the better.

In both Lithuania and Slovakia, the presidency is mainly ceremonial. But a bad incumbent can still be a nuisance to the government, a diplomatic embarrassment, and a danger to national security. Mr Paksas crossed into the danger zone when he came under the spell of a dubious Russian-born businessman called Yuri Borisov. Mr Borisov bankrolled Mr Paksas's presidential campaign.

Foreign governments pressed Lithuania to clean house before it joined NATO last week and the European Union on May 1st. Mr Paksas helped to speed his own demise by trying to give Mr Borisov a job even after impeachment proceedings were under way. This gesture cost the president most waverers in parliament, and caused some to question his state of mind. But Mr Paksas, who is not yet 50, had some 40% of the public on his side at the height of impeachment proceedings, according to Vilmorus, a Lithuanian polling firm. He may yet return as a force in national politics—even if he has to match the tenacity of Mr Meciar, who languished for six years on the Slovak parliament's backbenches before this week's breakthrough.

Mr Meciar did better than expected in the presidential election, winning 33% of the vote. His chief rival in the polls, Eduard Kukan, foreign minister in the centre-right government, did worse, winning only 22%. But the big surprise was that Ivan Gasparovic, a former right-hand man to Mr Meciar who now heads a splinter party of his own, finished a whisker ahead of Mr Kukan. That put paid to hopes for a second round in which voters would rally behind Mr Kukan to shut out Mr Meciar. Instead, Mr Meciar will confront a pale imitation of himself, and must accordingly be the favourite to prevail.

Mr Meciar is supported still by many voters who backed him in the 1990s—rural folk, pensioners and low-paid workers, longing for the social benefits, simple lives and guaranteed jobs that communism once promised them. Mr Paksas and other regional populists, whether of right or left, play to similar audiences. Poverty ensures a loud voice in politics for anger and envy, which blur into bigoted nationalism.

A rising protest vote in Poland has turned a small-farmers' movement, Samoobrona, into a leading political party. An unreformed Communist Party is gaining ground in the Czech Republic. In Romania, which hopes to join the EU in 2007, the xenophobic Greater Romania Party enjoys not only popularity but respectability. Even Slovenia, the richest and primmest of this year's EU entrants, voted overwhelmingly in a referendum on April 4th against restoring civic rights to members of ethnic minorities denied citizenship without cause after independence in 1991.

Prosperity will no doubt smooth such rough edges. But it will take decades to reach most of central Europe. If the likes of Mr Meciar or Samoobrona get their way, it may never arrive in some countries.

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Serbia

Gloom and doom, continued

Apr 7th 2004 | BELGRADE
From The Economist print edition

A troubled Balkan country, at risk from a nationalist revival

SERBS are feeling unloved. Last week the Americans suspended (some) bilateral aid, because of the Serbian government's failure to co-operate fully with the war-crimes tribunal in The Hague. The $26m involved is small—Serbia expects €1.1 billion ($1.3 billion) from other sources. And the money can be reinstated if Serbia hands over more suspects accused of war crimes, notably Ratko Mladic, the wartime commander of the Bosnian Serbs. But the suspension is rekindling nationalism.

Many Serbs note bitterly that NATO does not do much better than they do: it has just failed, yet again, to arrest General Mladic's former boss, Radovan Karadzic, in Bosnia. They resent the suspension of aid all the more because it comes just after the latest example of ethnic cleansing in the Balkans, the victims being Serbs driven from their homes in the Serbian province of Kosovo by ethnic Albanians under the noses of NATO troops.

Serb disgruntlement matters because, on June 13th, Serbia holds a presidential election in which the strongest candidate may be Tomislav Nikolic, leader of the extreme-nationalist Radical Party. Any action against Serbs wanted in The Hague will surely win Mr Nikolic more votes; his party is the biggest in Serbia's parliament.

Rumours in Belgrade suggest that Vojislav Kostunica, Serbia's prime minister, has been working to get General Mladic to give himself up. It is not only American cash that is at stake. Serbia will not now be admitted in June to NATO's waiting-room, the Partnership for Peace. And a new report from the European Commission identifies failure to co-operate with The Hague as a reason for Serbia's stalled progress towards starting the EU accession process.

For two months after its parliamentary election on December 28th, Serbia limped along without a government. Now it has a minority administration led by Mr Kostunica. Many analysts, noting that it is formed of parties with little in common, do not expect it to last long. But one pundit, Braca Grubacic, says that this might, paradoxically, work the other way. He says Serbia has, in effect, three autonomous governments, each taking care of its own business. Mr Kostunica's party looks after security and non-economic reforms; G17 Plus, a party that has evolved from a think-tank, deals with the economy; and the head of one of two smaller parties in government, Vuk Draskovic, once a fiery nationalist, is likely to be foreign minister.

Since the renewed violence in Kosovo, all parties have united in defence of the Serbs still there, arguing that the best way forward is to give them some form of territorial autonomy. But as Kosovo fades from the headlines, normal squabbling has resumed. The governing parties were divided over last week's decision to give financial help to the families of men in jail in The Hague. Yet on one thing, at least, all are agreed: the need to fend off the Radicals.

If Mr Nikolic becomes president, his powers will at least be limited. But Mr Draskovic declares that Mr Nikolic's election would lead to “a high level of isolation” for Serbia from the rest of the world. Mr Kostunica retorts that the West would be foolish to isolate the country, because this would harm the whole region, not just Serbia. But he does not believe Mr Nikolic will win. The hope is that the “democratic block” can unite behind the candidacy of Boris Tadic, now defence minister—though Mr

Kostunica has yet to endorse him.

Mr Nikolic is toning down his party's language. “It is not extremism to defend your country and people,” he says. If NATO and the UN can't defend Serbs in Kosovo, he adds, they should let Serbia do the job. That will not happen—not least because it would mean war with Kosovo Albanians. But many voters like the nationalist message. Things “are not fantastically optimistic,” says Mr Grubacic.

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Montenegro

Semi-independent

Apr 7th 2004 | PODGORICA
From The Economist print edition

A republic grappling with the issue of independence

THE pro-independence group around Milo Djukanovic, Montenegro's prime minister, might take satisfaction from Serbia's resurgent nationalism, for it must suggest to the tiny republic's 650,000 people that cutting ties to Serbia is their only salvation. Yet they have greeted Serbia's problems with alarm.

Montenegro was firmly yoked to Serbia until then-President Djukanovic broke with Serbia's nationalist strongman, Slobodan Milosevic, in 1997. Mr Djukanovic promptly took his party into the pro-independence camp. Montenegrins have since been divided over whether to go it alone. With demands for independence coming from Kosovo, a province of Serbia under international control, the European Union cajoled Montenegro into a loose “state union” with Serbia in February 2003. But the deal included the option of a referendum on independence after three years.

Since then Mr Djukanovic and his allies have survived scandal and economic hardship. Two years ago over half the voters backed pro-independence parties. But support for independence has since flagged. The most recent polls show 41% supporting independence, 39% against and 20% undecided. Pro-independence groups now fear being dragged down with Serbia. Dragisa Burzan, Montenegro's foreign minister, claims that being forced by the EU to harmonise his country's economy with Serbia's has caused “huge damage financially”. Now it will suffer “political damage”, because of Serbia's failure to co-operate fully with the war-crimes tribunal in The Hague.

Politics in Montenegro has long focused on independence. But another force has emerged. Nebojsa Medojevic, head of a think-tank called the Group for Changes (GZP), says independence should be put aside while a government of technocrats unites to halt the slide in living standards. He says Montenegrins are being cheated by crony privatisations, and that good economic statistics are “fake” or at best half-truths.

The GZP is not yet a political party, but it models itself on G17 Plus in Serbia, which began as a think-tank but is now in government. Recent polls show the GZP as a strong third-party contender. Milka Tadic, an observer at *Monitor* magazine, says it might win support from voters disaffected with pro- and anti-independence parties; and it might benefit from hostility to Russian businesses trying to buy privatised companies. But Srdjan Darmanovic, a political analyst, plays down the GZP's prospects. He thinks it will lose support from one side or the other, as it will have to declare publicly if it backs independence. Mr Medojevic says he does—but, like St Augustine, not yet.

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Charlemagne

I'm sorry, I must be going

Apr 7th 2004
From The Economist print edition

The disintegrating European Commission

Get article background

PEOPLE are beginning to fidget. More and more are muttering their excuses and leaving early. Even the captain and master-of-ceremonies is losing interest. It could be a boring dinner—or a ship cruise. Unfortunately, this is the European Commission, the institution charged with running the European Union.

Officially, the commission's mandate does not end until November. But three members of the college of 20 have already left to return to national politics. The first to go was Anna Diamantopoulou, a Socialist who gave up her job as social-affairs commissioner to stand in Greece's general election last month. Next Pedro Solbes, in charge of economic affairs, was appointed as Spain's new finance minister. And last week Michel Barnier, the commissioner for regional policy, became France's new foreign minister. All three have been replaced, but by lesser figures.

Others are thinking of going. Possibly panicked by the sight of his less-talented French colleague achieving such prominence, the trade commissioner, Pascal Lamy, has made an ill-judged late bid for the job of boss of the IMF. Romano Prodi, the commission president, is increasingly preoccupied by his role as de facto leader of the Italian opposition. To add to the impression of disorder, the commission is having to take in new “shadow commissioners” from each of the ten countries that is joining the European Union on May 1st. With all these comings and goings, the commission now looks more like a station waiting-room than a European executive.

The official line is that the departures are good news, for they testify to the high esteem in which commissioners are held across Europe. In the past, bigger European governments have tended to treat a job at the European Commission as a consolation prize for somebody whose career in national politics was over. The new prominence of Mr Barnier and Mr Solbes suggests that taking a job in Brussels need no longer be a signal that you are nearing retirement. On the other hand, the alacrity with which the two men accepted posts back home makes a less flattering point about the commission. For all its pretensions to be a nascent European government, all commissioners know that the most powerful and highest-profile jobs are in national capitals.

The rash of departures is certainly being treated as bad news by many permanent Eurocrats in Brussels, who worry that this is a bad moment for the commission to drift along without strong leadership. They can see that the future of the European Union is up for grabs: its expansion is coinciding with final negotiations on a new constitution, the appointment of a new commission and the decision on whether to open entry negotiations with Turkey. The Eurocrats' fear is that the commission is vulnerable to attack from national politicians who see it as an over-mighty organisation that needs to be put in its place.

The commission plays a crucial role in the European Union. Its great strength is the “sole right of initiative”: the exclusive power to propose laws for the Union. It is up to national leaders, meeting in the European Council, to set broad policy guidelines, but it is the commission that turns these into detailed legal proposals. The most successful commission presidents have interpreted this right of initiative very broadly, pushing such ambitious ideas as a single market and a single currency. Jacques Delors, the most respected recent commission president, says his essential task was to achieve “intellectual control of the agenda of the European Council”.

The commission's other big role is as an enforcer. If a country breaks EU law, it is the commission that will launch the legal action that can result in fines and a humiliating reversal of policy. Its control over

both the production and the enforcement of legislation gives the commission enormous power, in a Union in which half of all new laws now emanate from Brussels.

Power struggles

Yet there are signs that the biggest European countries—particularly Britain, France and Germany—have the commission in their sights. Last November, when Brussels tried to discipline France and Germany for running bigger budget deficits than the euro's rules allow, the French and Germans rallied enough support from other euro members to vote the commission down. The commission is now challenging this action before the European Court of Justice. But its authority has suffered a serious blow that may not be reversed even if it wins in court. Another sign of the emerging free-for-all came this week, when the commission declared that three more euro members—Italy, the Netherlands and Greece—had either already broken or were about to breach the budget-deficit ceiling.

The sense of political tides moving against the commission was strengthened by a Franco-German-British summit in Berlin in February. The three countries proposed that the new commission that takes office in November should have a new “super-commissioner” in charge of economic reform. Informally, they let it be known that they wanted this job to go to a German candidate. This was distinctly cheeky. In theory, it is up to the new president of the European Commission, who will be appointed in June and take office in November, to organise the work of the commission and allocate the various portfolios. If three big countries fix things in advance, the new commission president risks looking like their creature. That would further alarm the smaller countries that rely on the commission to identify and protect a “European interest”.

The commission's future now depends critically on the choice of its new president. There is no front-runner for the job. But a third weak president in a row—after Jacques Santer and Romano Prodi—could see its authority critically undermined. Brussels can certainly be arrogant and power-hungry. But a commission that is unable to draft intelligent policies or to enforce European laws might be worse still.

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Economist / YouGov poll

Choosing to choose

Apr 7th 2004
From The Economist print edition

The government is right to stress choice in public services, as a specially commissioned poll shows and evidence from Scotland (see article) illustrates

HOW popular is choice? It sounds a silly question. The government and the opposition Tories agree that choice is the way to improve Britain's cash-thirsty and underperforming public services. Both want to encourage new service providers into the health and education markets to spur competition and generate new capacity. The government's plans rest on imaginary money following pupils and patients, while the Conservatives say they want to go one step further by handing out vouchers (with several strings attached) to help pay for operations or schooling. The next election could be decided by which of these competing visions voters prefer.

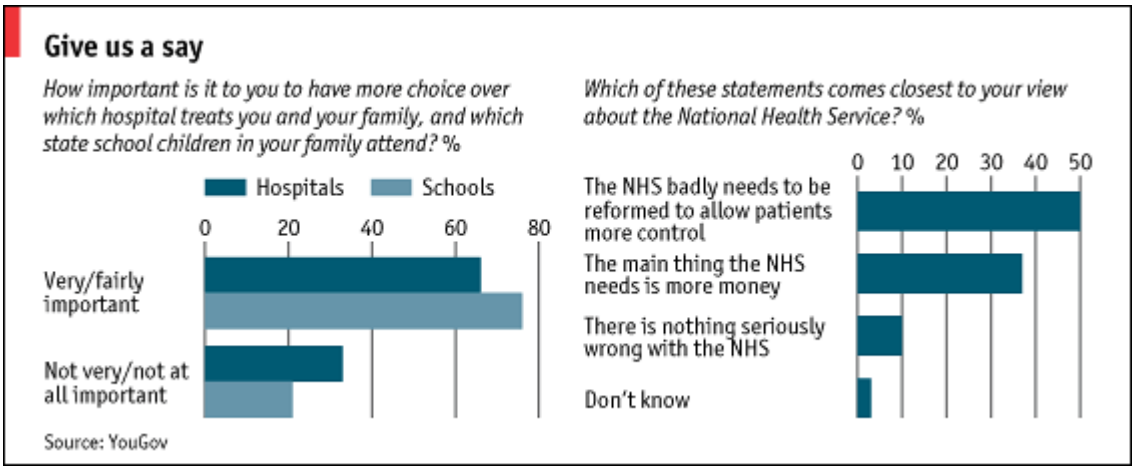
Now, however, it is being suggested that the whole idea of more choice about schools or health care leaves most people cold. If so, that would cast doubt on the strategies both of Labour's modernisers and Michael Howard's newly self-confident Conservatives. In particular, it would boost Labour traditionalists who are hostile to Tony Blair's commitment to “personalised” public services.

Focus groups and private polling commissioned by the parties supposedly show voters as sceptical about more choice. Most seem prepared to settle for local schools and hospitals as long as they are adequate. Tory pollsters found that being able to have an operation in a hospital near one's home was much more important than choice. Although respondents were interested in being offered more control over how they were treated, they didn't think choice had much to do with it.

That chimes with a fashionable new book, “The Paradox of Choice: Why More is Less”, by Barry Schwartz, an American social psychologist. Too much choice, he argues, ends up making us miserable because we worry about getting it wrong, while settling for the “good enough” makes us happy. Professor Schwartz deals mostly with markets for goods like coffee, where a cornucopia of choice exists, and financial services, which consumers find intrinsically muddlesome. But the defenders of the public-service status quo have cheerfully appropriated his arguments.

To shed some light on the debate, *The Economist* asked YouGov, an internet pollster, to put some questions about choice and public services. The findings, based on a representative sample of more than 2,000 voters, contradict the claim that choice matters more to policy wonks than real voters.

In a revealing answer to our first question (see chart), only a minority (37%) thinks that the NHS needs extra money, while 50% say that without reform the NHS would be unable to give patients more control over their treatment. Although split fairly evenly between those who thought that health care and educational standards overall would rise if there was more choice and those who thought it wouldn't make much difference, crucially, very few (about 14%) thought that standards would fall. That matters: critics maintain that gains for some would be at the cost of others, thus offending the public services' cardinal principle of equity.



Asked about the standard of treatment they or their family would receive given more choice, the message was similar: 42% thought it would rise; 43% thought it wouldn't make much difference; 9% thought things would get worse. The age range that least needed convincing about choice was the 45-to-64-year-olds, particularly as far as health was concerned. Out of this group, which tends to pay the highest taxes and will be the next big users of the NHS as age creeps up on it, 55% thought that standards in hospitals would rise if there was more choice. Across all ages, 66% reckoned that it was either very important or fairly important to have more choice in health care, while 76% felt the same way about education.

Predictably, Tory voters were keener on more choice, but a third of Labour voters were also convinced that it would make services better. What should worry the government is the perception that it will do less to promote choice than the Tories. Only 19% thought that Labour would, if re-elected, deliver more educational choice against 41% for the Conservatives.

By contrast, while 55% expected spending on health to be higher under Labour, a third thought the Tories would also spend more. That's good news for Mr Howard because it suggests that the Conservatives may not only be more trusted to deliver the next stage of public service reform, but are also getting over the message they will not cut services.

These intriguingly different results reflect the questions asked. Other polls put choice alongside practical issues such as waiting lists or the proximity of a good hospital. That risks muddling ends and means. “Choice” is not a good thing in itself, but a way to improve services.

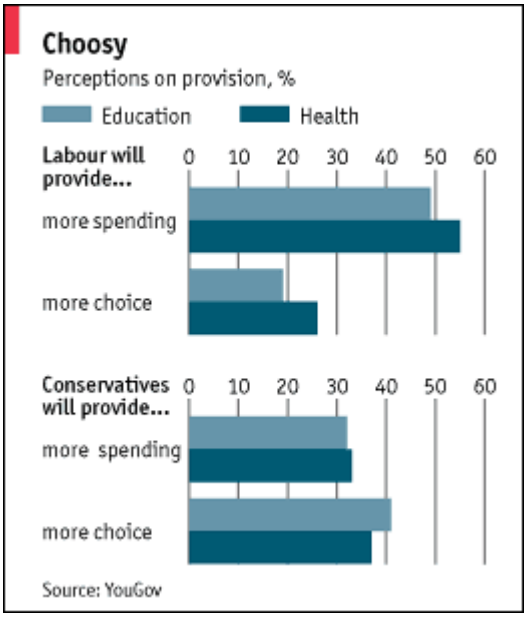
That is what Mr Blair has been arguing to his party. Voters are entitled to some scepticism until there are improvements for all to see. But most are prepared to give choice a chance, while few see any conflict between the notion of the empowered consumer and the principles of equity and universalism. For the political parties, the risks of not pushing forward the choice agenda appear much higher than persevering with it.

More data

The survey results provided below are not published in printed editions of *The Economist*

Poll results table 1

Poll results table 2



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NHS in Scotland

Notional Health Service

Apr 7th 2004 | EDINBURGH
From The Economist print edition

Despite taxpayers' efforts to the contrary, Scots are very unhealthy

IS IT competition or money that can most pep up the National Health Service? The contrast between Scotland, where it's managed according to old-style monopoly principles, and England, with limited user choice, suggests that competition matters most.

The government has certainly tried generosity. Tony Blair promised in 2000 that Britain would rise from near bottom of the European Union health-spending league to at least the middle by 2005. Spending splurges mean that target should be met. Total NHS spending should reach £91 billion ($165 billion) in 2005-06, up from £68 billion in 2002-03. Add in private health spending, and the Treasury predicts that the total will rise from 6.8% of national income in 1998 to 8.7% in 2005, above the EU average.

That's already had some clear effects in England: over 2,700 people were waiting more than six months for a heart operation two years ago. Now, the government says, nobody waits that long. But in Scotland, the taxpayer spends more and gets less. In 2001-02, the Scots consumed £1,512 per head in health and personal social services, 24% more than in England. Private health spending, higher in England than Scotland, closes the gap a bit; bigger English NHS spending increases will close it further. But in 2001, Scots, relative to population, enjoyed the services of 25% more hospital doctors, 35% more nurses and family doctors, 60% more acute hospital beds—and yet still ended up less healthy.

Part of that reflects more chronic illness: compared with England, heart disease, strokes, cancer, drinking and smoking are all higher in Scotland: on average, Scottish men die three years earlier. But a study by Phil Hanlon, professor of public health at Glasgow University, found that only 40% of Scotland's higher death rate can be explained by poverty and the unhealthy lifestyles that go with it. Some of the remaining 60% is due to Scots getting sicker sooner, and having more complicated conditions, because of unemployment over the past 25 years. Yet northern English people have much the same problems, and are healthier. Poor NHS performance, Mr Hanlon reckons, is another likely cause.

Others agree. Civitas, a think-tank, has compared survival rates for cancer, strokes and heart disease, where timely treatment reduces death rates. Despite higher medical activity rates in Scotland (more heart operations, for example), the death rates for all three diseases were worse, it found. One- and five-year survival rates for most cancers were lower than in England. Indeed, despite a 16% real increase in the Scottish NHS budget between 1999 and 2002, some things have actually worsened. Over that period, the median wait for outpatients has lengthened from 46 to 56 days, and the number of waiting inpatients has risen from 90,000 to 108,000.

The likely culprit is low productivity. Nick Bosanquet, professor of health policy at Imperial College, London, reckons that Scottish consultants are about 20% less productive than consultants in England and Wales.

He says this is mainly because the Scottish Executive is hostile to user choice and competition between health providers. Having money following patients rather than being bureaucratically allocated, he argues, gives hospitals incentives to reduce waiting times and attract patients.

Oddly, one of the selling points for devolution to Scotland and Wales was that it would let them improve the NHS by tailoring it to local circumstances. Wales too has rejected competition, soaked up extra spending, and kept long waiting lists. The English are already getting the better deal.

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About sponsorship

Footballers' lives

B*nd it like B*ckham

Apr 7th 2004
From The Economist print edition

Will reports of infidelity damage Beckham Inc?

PA

Celebrating synergies, Beckham-style

THE brands are intertwined. One is strong, the other failing and increasingly costly to run. What to do? From a business point of view, it has been hard for some time to see what David Beckham, Britain's best-known footballer, gains from his marriage. He has been lonely but successful playing football in Madrid. His wife Victoria has insisted on staying in England with the children, vainly trying to relaunch her flagging singing career.

Now a business conundrum has become an emotional one too. The *News of the World*, Britain's largest-circulation Sunday tabloid, this week published a steamy story about Mr Beckham's alleged dalliance with his former personal assistant, Rebecca Loos. Supporting evidence included a series of text-message exchanges, with the most sizzling bits tantalisingly replaced with asterisks in a touching burst of primness amid all the hanky-panky.

Mr Beckham terms all this “ludicrous” but stops short of outright denial. Some commentators feign world-weary boredom: footballers and affairs go together like dogs and lampposts. But the truth is that both individual Beckham brands, plus the composite one, are dented and may need relaunching.

Mr Beckham has made millions of pounds from sponsorship deals. His pleasing face and innovative haircuts have been used to market, among other things, a mobile phone network, a line of clothes for a department store, sunglasses, football boots, shirts and biscuits. He has also scored some memorable goals. He enjoys iconic status as a devoted father and—until this week—a model husband.

Mrs Beckham, known as “Posh” from her time as a Spice Girl, has by contrast failed to match her early successes as a pop singer. Her showbiz connections seem sleazy rather than wholesome. She has annoyed the press by her snootiness.

This disparity matches the price difference on Celebdaq, an online market set up by the BBC that allows users to trade celebrities with pretend money. Shares in both Beckhams were floated in August 2002, when Mrs Beckham's star was already waning: Mr Beckham fetched £93.05 ($169), while Mrs Beckham started at £24.55. Though both shares have since plunged, Mr Beckham is still much more valuable than his wife.

Logic dictates taking the weaker brand off the market, allowing Mr Beckham to work on his appeal without wifely drag. John Allert of Interbrand, a consultancy, says Mr Beckham could carry the Beckham brand independently, while Mrs Beckham would struggle.

But there is a synergy in the strategic future of the Beckham business that makes a split unlikely. When Mr Beckham (now 28) stops playing football, the combined brand will be the best long-term bet. Some marital problems now will make the couple more interesting, particularly in hard-to-crack America. Watch for them holding hands on a talk-show couch in about 2010; all talk of *** and ****** behind them.

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Custody

Retilting the scales

Apr 7th 2004
From The Economist print edition

A High Court judge stands up for fathers' rights

PA

Where's my superhero daddy?

IT IS no longer just irate fathers who are driven to extraordinary protests about their unfair treatment in the courts. The judges are joining them. In an unprecedented public attack on legal failures, Sir James Munby, a High Court judge, last week called for sweeping changes, particularly in regard to divorced fathers' contact with their children. “Public confidence is already ebbing away”, he said. “We need to act. And we need to act now.”

His criticism, supported privately by many of his colleagues, comes at a time when aggrieved fathers throughout the western world are rising up to demand fairer treatment. In certain Scandinavian countries and some American states, there is now an automatic presumption of joint residency for children of divorced or separated couples, allowing them to spend equal time with both parents. But in Britain, as in most other west European countries, the scales are still heavily skewed toward the mother. The father is usually granted only limited visiting rights, with little in the way of legal redress if the mother refuses to comply.

In England, family-court proceedings are normally held in private to protect the anonymity of those involved. But in a ruling on April 1st, Sir James said he had decided to go public after presiding over a case concerning “a wholly deserving father” who had been driven to abandon his five-year battle for contact with his daughter whom he had not seen for more than two years. After more than 43 court hearings before 16 different judges, he had told his lawyer that he felt very let down by the system—as well he might.

The final two years of litigation had been “absolute futility”, Sir James said. The father had nothing to reproach himself with. The “overwhelming responsibility” lay solely with the mother. Despite successive court orders culminating in 14 days in prison, she had repeatedly obstructed the father's access to his daughter, making a series of totally groundless allegations against him, claiming he had forcibly fed the child, had threatened not to return her and had abused her physically. Sir James said he felt “desperately sorry” for the father. The system has failed him, but there was nothing more he could do.

The way English courts deal with contact applications could be in breach of the European Convention on Human Rights, guaranteeing the right to respect for family life, the right to a fair hearing within a reasonable time, and the enforcement of court orders, he suggested. The delays in the present case had been “scandalous”. They were the “scourge” of the family-justice system. Even the most complex cases should be concluded within a period of months, not years, he insisted.

Swift, efficient enforcement of court orders was needed at the first sign of trouble, he argued. The courts were understandably reluctant to use the only two sanctions available to them—imprisonment and fines—on the ground that these would be against the interests of the child. But a “flabby judicial response” would simply encourage the defaulting parent to believe that court orders could be ignored with impunity. A very short prison sentence of, say, two or three days, might provide the necessary deterrent without impairing the mother's ability to look after her children, he suggested.

Stung by Sir James's attack, Lord Filkin, the family-justice minister, has promised a discussion paper on child-custody disputes in the summer. It is expected to include proposals for separating parents to be “encouraged” to go to mediation to settle their differences before resorting to the courts. Three pilot

schemes were launched last month. But fathers' rights groups say such a scheme would be doomed to failure unless warring parents were “required” to go to mediation.

Some 160,000 children a year are affected by divorce in England and Wales. Half of the 61,000 contact orders made by the courts in 2002 were broken. Two in five divorced fathers have lost all contact with their children after two years. Studies suggest that children from fatherless homes are considerably more likely to commit suicide, fall behind at school, take drugs, rape and commit other crimes. Hence Sir James's decision to break with the family court's traditional reserve.

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University access

Toffs unscoffed

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Fiddling with university admissions won't help poor applicants

Alamy

Finely graduated high-fliers

ENTHUSIASTS for social engineering are disappointed. Universities are mildly annoyed. And the middle classes, who benefit most from Britain's state-financed higher education system, are breathing quiet sighs of relief.

The government has asked Steven Schwartz, an American-born vice-chancellor, to suggest ways of getting more people from poor backgrounds to university—and particularly to the best ones. This week he published his interim findings.

They included something to please everybody. Universities alone, he said, should run their admissions systems, and on individual merit and potential rather than according to any kind of quotas. That pleased defenders of academic freedom, and especially those who fear that excellence in higher education is being sacrificed on the altar of social equality.

But Mr Schwartz also said that defining merit was difficult. Universities would do well to adopt a “holistic” approach, taking account of candidates' school backgrounds and other disadvantages. That implies that some well-coached applicants from privileged backgrounds may lose out to brighter children with worse grades from somewhere less fortunate.

But the odd tweak to favour the underprivileged is hardly all-out class warfare. More important, it is something that most top universities do a fair bit of already—after all, uncovering hidden talent is in their interests too.

A bigger question is whether the A-levels that English and Welsh pupils take at around the age of 18 are a suitable guide for university entrance. Dumbing down and intensive cramming mean that fully a fifth of the grades awarded are As. Admissions tutors are awash with candidates predicted to achieve stellar qualifications.

Mr Schwartz is therefore suggesting that A-levels be taken earlier in the year, so that universities admit on actual results, rather than predicted ones. That would help bright candidates from bad schools, where teachers' expectations, and thus the advice they give on university applications, may be pitched too low.

A second suggestion is to introduce American-style tests of numerical and verbal reasoning. That could offer a way for the very bright to differentiate themselves from the merely well taught. It would certainly be an improvement on the mushrooming number of in-house exams now being set by universities for oversubscribed subjects. Such a plethora of exams favours the well advised over the timid. But the new tests won't be a panacea: good schools will coach their candidates for the new exams, just as they do for every other hoop in life's circus.

What dons privately find most annoying is the recommendation that they make their admissions system more transparent. Greater clarity is entirely possible, but it inevitably creates rigidity rather than allowing the hunches that a “holistic” approach demands. Another proposal is to give every rejected applicant the right to feedback about why they failed. That seems doomed to produce piles of banal paperwork. Will it really help an unsuccessful candidate to know that he failed because he was too arrogant, too stupid, or because someone else was even better?

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The BBC

Auntie's new champion

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Michael Grade promises reform and no more apologies

AFP

Mr Grade watches over the licence fee

AFTER months of misery at the BBC, Michael Grade's arrival on April 2nd as its new chairman was a happy occasion. Staff welcomed him with a standing ovation. A charismatic and outspoken member of a famous theatrical family, Mr Grade reminds BBCniks of a popular figure from the past, the previous director-general Greg Dyke. Mr Dyke resigned in January after an official inquiry criticised the corporation's handling of a damagingly incorrect news story about the government's case for invading Iraq. Mr Grade declared himself a “Dykeist”, not a “Birtist”. That was a swipe at John Birt, a former director-general keen on efficiency and loathed by the troops. Indeed Mr Dyke is said (implausibly) to have hopes of returning to his old job. Back to normal, then, at the Beeb?

Not quite. The main lesson of the BBC's handling of the furore is that its regulatory system is inadequate. Its board of governors, mostly establishment figures who know little about broadcasting, have proved far too trusting of its management. Mr Grade says that he will enforce more separation between the corporation's bosses and its governors. He may replace some of them, says a BBC executive.

His appointment should itself improve governance. Thanks to his television past, which includes programming at London Weekend Television and BBC One, and running Channel 4, he knows far more about how the BBC works than did his predecessor, Gavyn Davies, a former City economist.

Mr Grade is also likely to re-cast the director-general's role so that it does not involve oversight both of business matters and editorial integrity. That dual responsibility may partly explain why it took Mr Dyke several weeks to look into the story that cost him his job. And well beyond these overdue reforms, Mr Grade will have to defend the BBC's publicly funded status. The Office of Communications (Ofcom) will soon publish findings on public-service broadcasting, which are expected to argue that the BBC broadcasts too much light entertainment programming.

Then Mr Grade will have to navigate the BBC through renewal of its charter. That runs out in 2006, and with it the BBC's right to a yearly tax, currently £121, on television-owning households.

But the first task is appointing a new director-general. Finding someone who will not be overshadowed by the new chairman will be hard. The job may go to someone with commercial and management ability rather than programming flair. For the moment, however, the favourites are Mark Thompson, chief executive of Channel 4, and John Willis, director of factual and learning programmes at the BBC. Mark Byford, a Birtist who has been acting director-general since January, is not widely tipped, and it is unlikely that Mr Grade would risk annoying the government by reappointing Mr Dyke.

Thereafter, Mr Grade will doubtless make some meaningful governance reforms. But if he wants to secure the BBC's long-term future, he will need to answer harder questions. Should the BBC compete as hard as it does now with private sector firms in areas outside broadcasting? In February, for instance, complains Emap, a big magazine publisher, the BBC bought Origin Publishing, which has 12 specialist magazines such as *Your Hair* and *Cross Stitching*. Buying these titles, says Emap, cannot possibly fit into the remit of a public-service broadcaster like the BBC.

Above all, the proliferation of digital television channels, as well as ITV, Channel 4 and Channel 5, makes

it increasingly hard to justify taxing every television owner, regardless of whether or not they watch BBC channels. David Elstein, former chief executive of Channel 5, recently argued in a report commissioned by the Tories that after 2006 the BBC should become a subscription service that people can opt out of. Public money, he says, should be made available to any channel making public-service programming, not just the BBC. Mr Grade has gained a job he has long coveted. It may well turn out to be unenviable.

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The Lloyd's insurance market

Freed from the cufflinks

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"Unlimited liability" was once the pride of Lloyd's. It's on the way out

HABITAT, diet and climate have changed and the species is becoming extinct. In 1990 there were almost 30,000 Lloyd's "names", wealthy people who at that time provided the entire backing for the famous London insurance market and were, proverbially, liable "down to their cufflinks" to meet claims. Today, they number barely 2,000; those with unlimited liability are heading into history.

For most of the past 300 years, being a Lloyd's name signified both status and riches. All you had to do was show, not even actually invest, the right level of wealth. Then you signed up to several syndicates to spread your risks, and picked up the profits (or, sometimes, losses). The actual insurance work was done by another bunch of supposedly gentlemanly types.

But a series of shocks in 1988-92 changed all that. Old conventions of trustworthiness had already been eroded by scandal and sharp practice: some people managing the syndicates shifted the worst risks on to gullible outsiders, keeping the best ones for themselves. Lloyd's had long since moved from a headquarters reminiscent of a posh gentlemen's club into a shiny new high-tech one. The names began to fear that the good times were gone for good.

To pay for disasters like the Piper Alpha oil-rig fire of 1988, and then 1989's *Exxon Valdez* shipwreck off Alaska, unprecedented wads of money were now required from the names' own pockets. With these came a less visible but potentially vastly greater disaster: American tort lawyers' discovery of asbestosis. To survive, Lloyd's in 1994 had to admit corporate capital, and in 1996 to set up a special vehicle, Equitas, to reinsure names' pre-1993 "long-tail" liabilities for things like asbestosis. But for these vigorous conservation measures, the unlimited-liability names might well be an extinct species already.

What may now doom the species is a concession made in the small print of Gordon Brown's budget. After some further dismal years around 2000, Lloyd's is now back to health: a year ago it reported £834m of profits for 2002, and this week did better still, with £1.9 billion for 2003, thanks to an unusual combination: the fat premium rises due, notably though not solely, to the World Trade Centre attack, and a rare shortage of catastrophes such as hurricanes or airliner crashes. But many of the names are still deep in the red from the earlier disasters, and it is to them that Mr Brown has thrown a lifeline.

Till now, a name unwilling to go on risking bankruptcy could limit his liability by switching to one of the new "namecos" invented for that purpose by Lloyd's in the 1990s (or to an antique form of Scottish partnership, with odd disadvantages of its own). But he could not take his tax losses with him, to set against his new vehicle's future profits. For all the risk of their old status, many names were naturally unwilling to make the shift. But now, from April 6th, the coming Finance Act will let them limit their risk but keep their tax losses.

The old-style names, who even now provide nearly £2 billion of the Lloyd's market's £15 billion insurance capacity, roughly twice as much as their "limited" cousins, won't all rush to switch at once. But the market is a truly risky one, prone to large and volatile swings between good years and bad. Premiums are already slipping for some classes of insurance, so the 2003 profits may turn out to have been a peak. And with al-Qaeda and climate change on the loose—let alone American lawyers, whose latest gimmick is

to sue Lloyd's for insuring 18th-century slave ships—this is no place for a wise man to risk his cufflinks.

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Bagehot

The right thing, the wrong way

Apr 7th 2004
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The government's immigration policy is in a mess. It has only itself to blame

PERHAPS Tony Blair's hastily convened Downing Street "summit" on asylum and immigration policy, held on Tuesday in the wake of last week's ministerial resignation and a swathe of further embarrassing newspaper revelations, will serve some useful purpose. It might at least persuade officials at the Home and Foreign Offices that communicating with each other occasionally would help them in their undoubtedly difficult jobs. What it won't do is restore public confidence or rescue the government from the twin charges of ineptitude and duplicity.

How many of the allegations made in the last few weeks are true in their entirety has yet to be established. The latest (and one of the most politically damaging because it directly implicates the prime minister) is that Mr Blair connived with his Romanian counterpart to waive visas for Romanians coming to Britain as a way of reducing asylum applications. This could have been seen as a necessity after Mr Blair's promise early last year to halve the number within six months. It sounds credible because Britain has said it will lift visa restrictions early for European Union (EU) applicant countries if they meet certain conditions. But there is no hard evidence, and both Downing Street and the Romanians have rebuffed all suggestions of a deal.

Whatever the facts, most people, to the extent they are paying attention, will conclude that official policy was indeed being subverted by a nod and a wink. Government denials are of limited use because they fly in the face of two wider truths. The first is that the government has form when it comes to the manipulation of targets: once Mr Blair had announced a target for asylum applicants, it was bound to be met no matter what. The second is that ministers are suspected of being quite happy to see armies of industrious east Europeans arriving to help fuel Britain's successful and flexible economy: if several thousand Romanians arrive here a few years earlier than otherwise, no great harm will have been done, it is thought.

The government's difficulties stem from the fact that, when it comes to immigration, at some point its brain and its gut became fatally parted. As immigration raced up the list of voter concerns, its gut told it to be very afraid. Race riots in the north of England in the summer of 2001, growing anxiety about Islamic cultural separateness following September 11th and, above all, the explosion in the number of asylum-seekers (usually seen as "bogus") in the late 1990s formed a potent cocktail happily stirred by the popular press. The asylum system itself made things worse. By preventing refugees from working and forcing them into benefit dependency, it helped feed the prejudice that most migrants were cheats and scroungers. No wonder Mr Blair wanted to be seen to be doing something about it.

However, as the number of asylum-seekers began to decline in the latter half of last year (thanks in some degree to the prime minister's magic wand, but also because of a general reduction across the EU caused by a mix of tougher controls and regime change in Afghanistan and Iraq) attention and headlines have switched to other forms of immigration. Whereas the government could always claim to be doing its inefficient best to prevent abuse of the asylum system, the "getting on top of the problem" line doesn't wash if there has, in effect, been an unannounced policy to allow in much larger numbers of people than hitherto from outside the European Economic Area (EEA), which is the EU plus other rich European countries.

And that is certainly what even the inadequate official statistics indicate. From 1982 to 1997 (when Labour was elected), the number of non-EEA migrants granted settlement was almost flat at 50,000-60,000 a year. But by 2000, this had more than doubled (recognised asylum-seekers representing only about a quarter of the total) and there has been little let-up since. Various programmes to attract foreign workers have been either set up or expanded. While many of these are classified as temporary workers

or students, a large number will become permanent settlers and eventually citizens. Add to these the expected arrivals from the EU accession countries later this year (who will be allowed to work in Britain immediately, a right almost all other EU members have delayed), plus the apparent willingness to smooth the way for Bulgarians and Romanians who are not yet even in the union, and the overall numbers look quite large.

A question of consent

The government's brain is, however, confident that this is wholly in Britain's economic interests. Many migrants have skills that are in high demand—London's health service and schools would collapse without them—while others, as immigrants always have, are prepared to do menial jobs shunned by the indigenous population. When ministers claim that employers are crying out for these workers, there is no reason to disbelieve them. Latterly, David Blunkett, the embattled home secretary, has plucked up the courage to explain why migration on this scale is desirable.

Sadly, it is too little and probably too late. The government is in its current bind because until now it has been afraid to explain what it was doing. There is a one-paragraph reference in the 2001 manifesto to the “positive contribution” people from abroad make to British society, but only the tiniest hint about what was really going on.

In short, the government has carried through an important policy that affects the lives of many citizens, but without having adequately gained their consent. The tragic consequence is that when it now argues perfectly sensibly about the need for “managed” migration, it is simply not trusted. Post-Iraq, Mr Blair likes to talk about being more interested in doing the right thing than in being popular. If only he had said rather sooner that this was what he was doing about immigration.

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The Tyco mistrial

The case of the hold-out granny

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From The Economist print edition

EPA

What a high-profile fiasco says about corporate-fraud trials

THE trial of two former Tyco executives ended in high drama on April 2nd, as the judge, Michael Obus, declared a mistrial. Dennis Kozlowski, the firm's ex-boss, and Mark Swartz, Tyco's former finance chief, had stood accused of looting their employer of $600m, via fraudulent share sales and unauthorised compensation. Now, the two men must prepare for a retrial—or negotiate pleas with Manhattan's district attorney, Robert Morgenthau, whose office prosecuted the case. In the meantime, however, Americans have been struggling to make sense of the extraordinary sequence of events that wrecked the trial in the first place.

Much of the immediate finger-pointing has been at the media. On March 26th, the *Wall Street Journal* published the name of one of the jurors, Ruth Jordan (above), after she appeared to flash an “OK” sign at the defence in the midst of jury deliberations. (She denies doing so.) The next day, the *New York Post* put a drawing of Ms Jordan, a 79-year-old resident of Manhattan's posh Upper East Side, on its cover, and called her a “hold-out granny” and a “batty blueblood”. After obtaining assurances from Ms Jordan that she did not feel pressured, the judge allowed the jury to continue its deliberations for four more days. At this point, Ms Jordan told him that she had received a telephone call and a letter from members of the public. She later said the letter was “disturbing”.

His voice wobbling with emotion, Mr Obus called a mistrial, blaming “efforts to pressure the jury from the outside”. Though lawful, he said, printing Ms Jordan's name violated an unwritten convention “that is ordinarily observed and wisely observed.” Quite so. But there is more here to question than merely the role of the press.

One angry granny

Accounts given to the media by the jurors, though not entirely consistent, suggest the following version of events.

At the outset, the jury found itself evenly split. Some of the jurors thought that the prosecution had put forward strong evidence that Messrs Kozlowski and Swartz had failed to seek approval, as they should have done, for certain payments to themselves from the board of directors. These payments included forgiven loans totalling $37.5m, together with bonus payments worth $49.6m for work done on the initial public offering of TyCom, a company subsidiary. Other jurors, however, found Mr Swartz's testimony

credible, and were reluctant to press for guilty verdicts.

Ms Jordan, meanwhile, had felt a powerful reaction against the trial itself. As one juror, Pete McEntegart, put it in *Time* magazine: “[Ms Jordan] offered her view that when things went to hell at Tyco, the Ivy League-educated, Waspy board of directors closed ranks and served up, in her words, the ‘Polack and the Jew' on a platter for a DA eager to make an example of somebody—anybody—for the corporate greed of the late 90s.”

Mr McEntegart mocks this position. Yet lawyers for Messrs Kozlowski and Swartz did offer some evidence to support Ms Jordan's alleged plot line—albeit without the racial overtones (which, anyway, Ms Jordan denies using). For a start, the board's worries about the large bonuses that Messrs Kozlowski and Swartz were stuffing into their pockets appear to have materialised well after the payments took place—and in a more hostile and threatening legal climate. Tyco's former outside auditor, Richard Scalzo, testified that he had raised some of the biggest disputed bonus payments at a board audit-committee meeting, where he discussed their accounting treatment. If board members had asked about these payments, said Mr Scalzo, he would have provided more detail about them. But, “I was not asked”.

Moreover, Mr Swartz testified that Mr Kozlowski offered to resign after the board learned about another controversial payment (this one to a Tyco director), but that the board declined his offer. The board paid Mr Swartz a handsome severance package in return for leaving the firm. This payment took place well after the “shocking” discovery of the previous, unauthorised payments. Other directors now professing “astonishment” confirmed, under cross-examination, that they had signed corporate proxy statements that disclosed some of these transactions (though not their purposes) to shareholders. Even Mr McEntegart seems to have reacted badly to the efforts of prosecutors to sway the jury by lingering on Mr Kozlowski's free-spending lifestyle and unappealing sexual habits.

By the end of the first week of deliberations, only Ms Jordan was holding out against conviction on at least one of the charges. Under New York law, a verdict requires a unanimous jury. A juror, Patrick Donovan, wrote a note to the judge claiming that one juror had “stopped deliberating in good faith”, and that the atmosphere in the jury room had turned “poisonous”. Ms Jordan then penned a note to the judge arguing that one or more jurors “do not have an open mind as to the possibility of the defendants' innocence.” Declining to call a mistrial, the judge sent the jurors home for the weekend to relax.

When the jury resumed its work the following week, the situation had changed. “Miraculously...we seemed to have a breakthrough,” wrote Mr McEntegart. After pausing briefly to ponder whether they, the press, or the public, had bullied Ms Jordan into changing her mind, the jury “ploughed ahead”, and, according to some jurors, by Thursday evening seemed to have reached a consensus of guilt on several charges. However, Ms Jordan insists that she would not have voted guilty. Then Ms Jordan told the judge about the letter and the phone call prompting him finally to declare a mistrial.

Mr Morgenthau immediately said that the prosecution would seek a retrial, and Mr Obus scheduled a hearing for May 7th to discuss when to hold the new trial. After six months, 48 witnesses and more than 12,000 pages of testimony, the prospect of another trial seems daunting.

Both prosecution and defence will now tailor their efforts to what they have learned about the jury's deliberations. The prosecution's barraging of the jury with mind-numbing detail, and its focus on the defendants' greed and lavish lifestyles seemed to alienate many jurors, even some who thought the defendants were guilty. On the other hand, some did see solid evidence of stealing, and expertly dismantled Mr Swartz's polished rationalisations on the witness stand. If a second trial goes ahead, prosecutors are likely to try to present a far more focused case.

The defence can take heart from the fact that for many jurors, and Ms Jordan in particular, evidence of the defendants' criminal intent seemed flimsy, as it did to some outside observers. Without this, usually the hardest thing to prove in complex fraud cases, jurors should not convict. Ms Jordan says that, despite pressure, she clung to her belief that the prosecutors failed to demonstrate beyond reasonable doubt that Messrs Kozlowski and Swartz intentionally meant to defraud Tyco or its shareholders. As she told *Newsday*: “I wasn't unfair, but I did have a firm resting on the presumption of innocence. I'm not sure [the other jurors] ever got that concept.”

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Tycoons

Bill v Ingvar

Apr 7th 2004
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Is the founder of Ikea richer than Bill Gates?

WHO is the world's richest man? As most tycoons are secretive about their dosh, vast personal wealth is fiendishly hard to measure. Bank accounts are private. Stakes in private companies are tricky to value. Many rich people use opaque offshore vehicles to hoard their cash. The value of works of art varies.

Even so, in recent years Bill Gates, the founder of Microsoft, and Warren Buffett, boss of Berkshire Hathaway, have usually topped rankings such as the annual *Forbes* rich list. But *Veckans Affarer*, a Swedish business magazine, thinks they are all wrong. Forget the American tycoons: Ingvar Kamprad, the famously frugal founder of Ikea, a Swedish furniture chain, is the world's richest man. Mr Kamprad's personal fortune is $53 billion, says *Veckans Affarer*, compared with Mr Gates's paltry $47 billion and Mr Buffett's $43 billion.

Bo Pettersson, author of the Swedish article, says that he came up with his estimate of Mr Kamprad's fortune by digging around in the available information on Ikea's profitability in order to estimate the value of the firm. As a Swedish private company Ikea has chosen not to reveal its profits.

Much depends on whether Mr Kamprad still owns Ikea. In effect, he does, says Mr Pettersson. Stichting INGKA, a Dutch charitable foundation Mr Kampard established with his Ikea shares in 1982, makes only minor donations to good causes. It is, claims Mr Pettersson, mainly an investment vehicle for Mr Kamprad, a “senior advisor” to INGKA. Wrong, says Ikea: Mr Kamprad gave Ikea to the foundation.

Ikea is unhappy about being owned by the world's richest man because that does not fit its folksy, thrifty image, claims Mr Pettersson. And Mr Kamprad, who avoids Sweden's high taxes by living in Switzerland, is not popular at home. If Americans still claim that the world's richest man is one of them, most egalitarian Swedes are unlikely to argue.

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Business networking

E-schmoozing

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From The Economist print edition

Will the internet transform how business contacts are made?

FOR most people, managing the mountain of spam in their inboxes is a wretched task. So the temptation, upon spying a mass e-mail from a friend inviting chums to join an “online business networking” site, is to hit delete. That would be a mistake, at least according to a growing number of lawyers, entrepreneurs and assorted other business people who are productively schmoozing online.

A crop of business-networking firms—LinkedIn is the most popular—that let individuals mine the connections of friends-of-friends online, has sprung up in the past three years. After a quiet start, their e-mails are becoming ubiquitous. The idea is that finding a job, freelance project or new employee is easier when trusted friends make the introductions. Already, they have attracted hundreds of thousands of subscribers, mostly through word of mouth.

The firms take their inspiration, in part, from hugely popular social-networking sites such as Friendster and Tribe that target younger customers interested in online socialising. But whereas dating sites become obsolete once a lonely heart has found a soulmate, business-networking sites claim that they have a role as long as a customer has, or needs, a job. Monster, the world's biggest online job-search site, has been prompted by the popularity of its new competitors to add a networking function to its existing offering.

The potential is huge—if a way to charge a decent price can be found. America's total hiring market, including online agencies such as Monster and Yahoo's Hotjobs plus offline headhunters, was worth $5.3 billion in 2003, says Forrester Research. Trade shows, a rough proxy for the market for paying to meet industry contacts, are a $100 billion industry, says *Tradeshow Week*, a trade magazine.

Business models vary. Ryze, one of the few profitable e-schmoozing firms, offers public chatrooms and organises monthly, face-to-face networking events in big cities to supplement its online networking offering. It charges for a premium networking service, tickets to (offline) networking events and classified advertising.

LinkedIn, with over 400,000 registered users, is invitation-only. It focuses on facilitating one-to-one connections, not community-building. It claims to log 20,000 completed connections a month. In November, Sequoia, a leading venture capitalist, invested $4.7m in it. But so far, there are no plans to charge for its service.

Arguably more interesting are such outfits as Spoke, Visible Path and Contact Network Corporation. They target businesses directly, rather than just business people, and already routinely charge for their services. Spoke, the leader of this group, has raised over $20m from US Venture Partners, Sierra Ventures and others.

Their corporate versions of social networking software analyse (with their permission) employees' address books, CVs and e-mail to create contact databases that can be mined by all workers. Thus, for instance, a sales person seeking an introduction at IBM could discover if any of his colleagues has a friend, ex-boss or business contact there. Perhaps some lucky social-networking entrepreneur will even find that his office-mate knows Bill Gates.

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Eurotunnel

Vive la révolution

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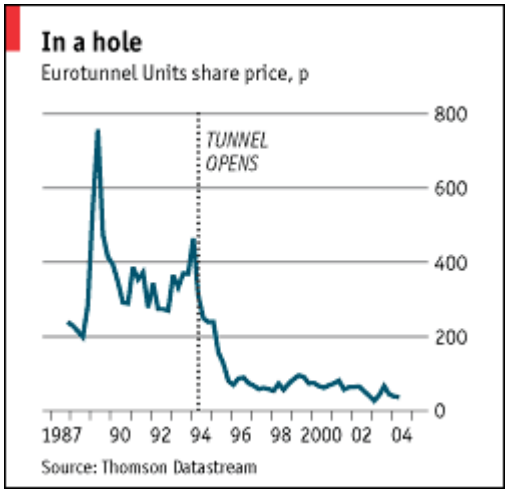
From The Economist print edition

How frightened should bosses be of France's army of small shareholders?



SECURITY precautions for the general meeting of Eurotunnel in Paris on April 7th resembled anti-hooligan measures before a big football game. No wonder. Thousands of small French shareholders have lost most of their investment in the firm that holds the concession on the tunnel between England and France. They are furious. Helpfully, Nicolas Miguet, one of the noisiest shareholder-activists, advised his supporters not to show up armed. But Eurotunnel's entire management seemed set to get the boot—at least metaphorically—at the meeting, which took place after *The Economist* went to press.

The Eurotunnel affair has given unprecedented prominence to France's activist small shareholders—above all Adacte, a specially-formed group of Eurotunnel shareholders headed by Joseph Gouranton. Previously, only institutional shareholders have had any luck, and then rarely, in shaking up corporate France. Last April institutional shareholders, such as Groupe Bruxelles Lambert, an investment firm, tried to sack Jean-Pierre Tirouflet, boss of Rhodia, a chemicals firm. Mr Tirouflet survived, only to resign in October. In 2002 institutional shareholders led by Claude Bébéar, the founder and chairman of AXA, France's biggest insurer, ousted Jean-Marie Messier, the boss of Vivendi, a troubled media conglomerate.

The number of small shareholders has grown fast of late in France, thanks not least to assorted privatisations. The flotation of Eurotunnel was arguably the launch of popular shareholder capitalism in France. Individual shareholders still own 65% of Eurotunnel's equity.

Last year, a new corporate-governance law strengthened the rights of small shareholders. If they remained ineffective, until now, that was chiefly due to their disunity. They are a motley crowd, ranging from the respected Association de défense des actionnaires minoritaires (ADAM) to fringe groups such as SOS Petits Porteurs. Eurotunnel says the noisy Mr Miguet, founder of the French Taxpayers' Party and member of Adacte, is a financial tipster with a criminal conviction for the “unlawful exercise of a directorship of a company”, who has been barred as a director.

Bosses in France still have much less to fear from shareholder activists than their counterparts in America or Britain do. The French state's hand is still heavy, and many big French firms are controlled by one shareholder. Last year's ouster of Michael Green, boss of Carlton, a British TV company, by institutional shareholders could never have happened in France, suggests Guy Barker of Georgeson Shareholder, a consultancy. Yet, with foreign ownership of shares in big French companies now averaging one-third, French bosses should probably worry more about foreign investors than domestic shareholders—big or small alike.

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Doing favours at work

The gift relationship

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Why workers who do favours are more productive

IS GENEROSITY good for you? At work, at least, the answer may be yes. There, says a recent article in the *Academy of Management Journal*, productivity rises when workers help each other more.

Francis Flynn, of Columbia University's business school, studied 161 engineers working for a telecoms firm near San Francisco. They work in eight teams, but each individually sorts out detailed engineering problems sent in from around the country. Mr Flynn asked each employee to report how often they swapped help with each member of the team—help such as technical advice or taking a second look at a recommended solution—and who, in each case, had given relatively more in their exchanges. Thus, he looked separately at the frequency with which individual workers made such swaps and at how one-sidedly generous they were. He also asked employees to rate how highly they regarded one another.

Mr Flynn correlated the answers he got with information from the firm on employees' productivity. He found that generous employees who get little in exchange are well-regarded by colleagues. Employees who helped colleagues generously but did not receive help in exchange were less productive. Those who receive as well as give were relatively more productive, particularly those who helped each other most often. A pattern of frequent giving and receiving boosted both productivity and social standing.

Why should productivity rise when employees frequently swap help? Mr Flynn has two explanations. First, as employees learn more about the resources they can offer each other, they develop a more efficient pattern of requesting and giving help. Second, helpful employees learn to trust each other more, and so become willing to do bigger favours because they feel more sure about the likelihood of reciprocation. And, of course, it is nicer to work with helpful people than with the other sort.

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EU expansion

The joys of enlargement

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What May Day will mean for European business

MORE than 70m people in central Europe will wake up on May 1st to find themselves citizens of the European Union. Eight countries in the region, along with the Mediterranean islands of Cyprus and Malta, will become the EU's newest members. European laws will take precedence over national ones, customs codes will be replaced by the rules of Europe's single market, and Brussels will have the last word on matters ranging from competition policy and value-added tax to sex discrimination in the work place.

Governments and firms have been hoping and planning for this moment since communism collapsed in 1989-91. With so much advance notice, big economic adjustments in the private sector have already taken place. Foreign direct investment has poured into central Europe in the past decade, drawn by a combination of low wages and guaranteed access to EU markets. A wave of new factory-building in the region may even have passed its peak, as the competition from China has grown stronger. Now the EU's new members must move up-market, to lure higher-paid, higher-skilled jobs in service industries such as scientific research and information technology.

They have a good chance of succeeding. By banning or limiting legal inflows of cheap workers from central Europe for two-to-seven years after enlargement, the governments of France, Germany and other rich EU countries are forcing their firms to go on pursuing cheap labour by investing abroad. Even for big companies, central Europe will retain some advantages over Bangalore or Beijing when viewed from the West: productivity is higher, tariff and border problems are disappearing, shipping costs are lower, and the business environment is more familiar. As for medium-sized firms in western Europe that want to cut costs but lack the resources to cope with exotic business environments, central Europe will offer a very reassuring option for investment and outsourcing once it is within the EU.

Most barriers to trade in goods between the EU and the new members have already fallen, leaving only a few to go in May. These last restrictions cover about 5% of current trade by value, mostly farm products. Alas for consumers, there is little prospect that their removal will flood western Europe with cheap food, as protectionists claim. Prices for many farm products in central Europe have risen close to EU levels; farm productivity remains low; the region's big dairy industry will be hobbled by EU milk quotas; and the EU's tough health standards will limit meat exports.

Multinational firms are fighting as fiercely for sales in the consumer-goods markets of central Europe as they are in those of western Europe, often more so. But though the EU's new members no longer count as emerging markets, they are not quite mature ones either. Prague and Warsaw may be full of smart supermarkets, but outside the big cities there are very few moneyed consumers. Average incomes in central Europe are barely one-fifth of those in the current EU, so full convergence of living standards is decades away at best. Given this, most multinationals plan to retain separate divisions and strategies for western and central Europe, despite enlargement. They are more likely to integrate operations across the EU later in the decade, as the central Europeans begin to adopt the euro, according to a survey conducted by the Economist Corporate Network, a sister firm of *The Economist*.

For firms of all kinds in central Europe, the main change on May 1st will come with the need to know and obey EU laws and regulations. But these are so extensive and complicated that few firms (and no governments) have mastered them fully. Some countries have not even finished translating them. It will take months and years for inexperienced courts, tax offices and other government agencies to gain experience in interpreting and implementing them. As long as differences between old national rules and new EU ones remain to be ironed out, firms may encounter inconsistencies between the two—for example, in the collection of value-added tax, where the EU establishes the over-riding principles but national governments decide the practical implementation. Companies caught in such conflicts should

“follow the rule that suits them best, and hope”, says one tax consultant.

The accession countries already have national laws on competition and state aid, drawn up with EU entry in mind. But the rules here are likely to be implemented more rigorously after May 1st, when EU law takes effect directly and the final authority to enforce it passes to the European Commission, the EU's executive body. “If you have 40% of the market...then worry,” says Ann LaFrance, a competition lawyer with Squire, Sanders & Dempsey.

If the commission determines that a company has seriously breached competition law, it can impose a fine of up to 10% of its global turnover, as Microsoft found recently. Suppliers and customers in central Europe will have a few months' grace to make sure that their contracts contain no unfair pricing provisions or other restraints. Then the commission will be on the prowl, and may well be looking for some high-profile cases that will send clear messages to the market. State aid will also be policed more strictly: companies receiving illegal aid in cash or in kind may be forced to repay it all.

Business people in central Europe know that the problems of EU membership will not end with the many teething troubles of accession. Membership will mean a constantly evolving body of restrictive laws in areas such as environmental standards, health and safety, and corporate governance—quite a lot of them ill-adapted to the needs of poorer countries. Yet they are optimistic on balance. They expect such costs to be dwarfed by the benefits of better public administration and a stable, uniform and more open business environment. From May 1st, this optimism can be put to the test.

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Four tips for the enlargement game

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1. If you get state aid, notify the European Commission before May 1st. If the commission fails to object within three months, the aid is safe.

2. If you are part of a price-fixing cartel, prepare to shop your fellow members. The EU treats whistleblowers leniently.

3. Train your staff to respect race and gender at work. A lawsuit alleging discrimination could cost much more.

4. If your business is growing, move to Tallinn. Estonia levies no corporate tax on reinvested profits.

Panos

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Industrial biotech

Field of dreams

Apr 7th 2004 | CHICAGO AND MINNETONKA, MINNESOTA
From The Economist print edition

Is turning crops into fuels and chemicals the next big thing?

Get article background

HENRY FORD, that great American inventor, was fascinated by the soyabean. During the Depression, he spent many hours at a lab near Detroit trying to turn the humble bean into cheap plastic, so that more Americans could afford his Model T car. By 1941 Ford, who was known to wear suits and ties made of soyabean, unveiled a handmade car with a plastic body made completely from plants. A news report at the time called it “part salad, part automobile”. Alas, like many who have tried to commercialise plant-based materials, he never figured out how to produce soyabean-based plastics that could compete on price with petroleum-based plastics, still the dominant variety of industrial polymers.

Now, the OECD, McKinsey, a consultancy, and a handful of big corporate converts, notably Dow Chemical, Cargill and DuPont, say that times have changed. They argue that savvy firms increasingly understand that the fossil-fuel era will come to an end, and are diversifying away from such raw materials. Scott Noesen, who directs Dow Chemical's sustainable-development efforts, says, “We're going to be in a carbon-constrained world, and there's going to be a cost for carbon dioxide.” Carbon-emission trading will be common.

Governments are helping to drive change. (Indeed, their subsidies and regulations may be the main driving force.) America recently published draft rules to encourage federal purchasing of bio-based industrial products in 11 categories, from lubricants to fibres, plastics and paints. It also subsidises making ethanol from maize (corn) kernels. To meet European Commission targets under the Kyoto treaty, some 9.3m tonnes of ethanol will need to be produced annually in Europe by 2010. The EU has also adopted guidelines and production targets to expand the use of biofuels derived from agricultural, forestry and organic-waste products. The biofuels target for 2005 is 2% of vehicle fuel, rising to nearly 6% by 2010.

Most bio-based products now on the market rely upon traditional chemistry. But operations such as the glimmering new Cargill Dow joint-venture “bio-refinery” in Nebraska offer a glimpse of things to come. Cargill and Dow Chemical have invested $300m to produce plastic package wraps and textile fibres from maize and bacteria. The firms also say that they can use maize stalks and other crop left-overs to fuel their factory machinery.

Royal Dutch Shell and Iogen, a Canadian firm, are among those building an ethanol refinery that converts “residual biomass”—leftover plant matter usually thought of as waste. Thanks to the creation of more efficient enzymes that cut fermentation costs, advances in genetically modified maize starch that have improved yields, and government subsidy, America's 75 ethanol refineries produced a record 2.8 billion gallons (10.6 billion litres) last year. At least a dozen ethanol refineries are now under construction in America.

Already, McKinsey reckons that about 5% of global chemical sales are derived in part from industrial biotech. That figure could reach 20% by 2010, says McKinsey's Jens Riese, if chemical firms, whose polymer innovation has stalled in recent decades, become convinced by the economics of bio-based products.

Ford's U-turn

At last year's Detroit motor show, Ford, with a nod to its founder, introduced a concept known as the

Model U “green car”, with carpet mats made of maize, seat cushions from soyabeans, and engine oil from sunflower seeds. It may never go on sale, but is evidence of Ford's continued interest in bio-products. In January, Archer Daniels Midland, a huge agricultural firm, announced a partnership with Volkswagen to develop biodiesel fuels.

Not everybody views industrial biotechnology as the missing link in the evolution of the industrial complex. For every Dow Chemical, Cargill and DuPont, there are thousands of firms that know nothing of industrial biotech. And can any industry possibly be as clean and green as industrial biotech purports to be? Most farming requires millions of litres of pesticides, herbicides and fertilisers, which can leach into groundwater and then into nearby lakes, rivers and wells. Although motor fuels mixed with ethanol can cut hydrocarbon and carbon-monoxide emissions, they also produce increased levels of toxins called aldehydes and peroxyacyl nitrates, which can form brown smog.

Ethanol producers have previously fallen foul of America's Environmental Protection Agency for emitting volatile organic compounds such as formaldehyde and acetic acid (both suspected carcinogens) and methanol (a hazardous pollutant). Techniques for efficiently refining and safely disposing of huge volumes of petrochemicals produced by industry are now well understood. The same cannot be said for refining and disposing of similar volumes of fermented plant matter.

Crops grown in fields endure any number of natural fluctuations in soil chemistry, moisture and temperature. Plant biochemistry, as a result, changes—in vanishingly subtle, yet demonstrable ways. Crop yield is also far from an exact science. This may scare off businesses that need their inputs to be reliably supplied, and of a consistent quality.

“Quality is all over the board,” admits Steve Devlin of Iowa State University, who works for the government on product testing. Consumer acceptance is another issue. When an average consumer thinks of clothes and blankets made from maize, “cozy” and “soft” are probably not what comes to mind. On the other hand, new bio-fibres blended with older “biotech”, such as silk and wool, produce fabrics far from the itchy hemp shirts of the 1960s.

Even “green consumers” are price-sensitive. “It's naive to think a green label is going to give you a big economic advantage unless it's legislated,” says Charles Cooney of the Centre for Technology Innovation at the Massachusetts Institute of Technology. To cut manufacturing costs to truly competitive levels, further technology advances and more capital will be needed.

In the end, the commercial fate of bio-based products may hang on the price of oil, which has swung wildly in recent years. If prices remain high, industrial biotech may remain hot. If not—and crop prices can be volatile too; soyabean prices have doubled in the past seven months—bio-based products may fall out of favour, as they have done so many times before.

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Face value

Desperate embrace

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AP

Did Scott McNealy of Sun just make peace with an enemy, surrender, or cry for help?

TO GEEKS everywhere, it was as momentous as, say, the Rabin-Arafat handshake once looked to normal people—even though the war to be ended was one of infantile barbs and legal wrangles, not human tragedies. Here, on April 2nd, was Scott McNealy (left), the chief executive of Sun Microsystems and a hero of Silicon Valley, jovially embracing, and swapping Detroit Red Wings hockey jerseys with, Steve Ballmer (right), the boss of Microsoft, the Redmond-based software giant that, in the Valley's popularity polls, runs neck-and-neck with the antichrist.

Mr McNealy used to refer to Microsoft as the “dark side” and the “evil empire”. He described its pervasive Windows operating system as “a giant hairball”, and Mr Ballmer, its chief executive, and Bill Gates, its chairman, as “Ballmer and Butt-Head”. Yet Messrs McNealy and Ballmer have now divulged that they have secretly been golf buddies for the past year, rekindling the friendship they had felt deep inside ever since their shared youth in suburban Detroit, and later at Harvard and Stanford.

How heart-warming. But what, exactly, has happened? In short, the two enemies have agreed to bury the hatchet. Microsoft will pay Sun almost $2 billion to settle Sun's pending antitrust lawsuit against it, to resolve patent issues and to pay in advance for some licensing royalties. For Microsoft, which has some $53 billion in cash, this is peanuts. For Sun, whose credit rating was cut to junk last month by Standard & Poor's, it is most welcome. Longer term, the two firms have agreed to make their technologies compatible and, more generally, to play nice.

Their official reason for this about-turn certainly contains some of the truth. Large companies invariably have in their data-centres both Sun's fancy network-server computers and also cheaper machines running Windows. And they all have Windows on their employees' desktop computers. These need to talk smoothly to all the servers in the basement, but often do not. So customers are increasingly annoyed at the complexity of making the various technologies work together. Every client he meets, says Mr McNealy, tells him to “cut the rhetoric, Scott, go get interoperable.” Mr Ballmer chimes in: “There's nothing in this, nothing, nothing, nothing, nothing that will do anything other than delight customers.”

Customers, however, have been annoyed for many years, so it must have taken something else for the two arch-rivals to make peace now. For Microsoft, it is a desire to clean up, wherever possible, its legal

messes of the past. This is why, last May, it settled a suit by Time Warner, which owns the remains of Netscape, a web-browser firm that Microsoft bulldozed in the 1990s. Microsoft would love to come to a similar deal with the European Commission, which last month ruled against the firm, and with RealNetworks, another software rival that is suing it.

More importantly, Microsoft and Sun have a new common enemy: Linux, an operating system that competes with Windows and with Sun's Solaris but which, unlike the other two, is written by volunteers and shared freely among all who want to download and use it. When Mr Ballmer gives Mr McNealy a hug and says that “we do both believe in intellectual property”, this is a not-so-veiled jab at the open-source Linux, which both men consider, in essence, communistic. Microsoft and Sun happen to be the only major backers (in the form of licence payments) of Linux's gadfly, a firm called SCO, which is trying to obtain money from Linux users with threats of litigation.

Linux, however, is hurting Sun far more than Microsoft. Solaris is similar to Linux, which makes it very easy for customers to switch from one to the other. Migrating from Windows to Linux is a much more fiddly process. As a result, the technology bosses of companies, whose budgets have been tight since the dotcom bust, are ditching Sun's computer systems, the equivalent of Ferraris, for cheaper boxes from Dell, Hewlett-Packard or IBM that run Linux, the equivalent of Fiats.

Sun, in other words, is the main loser. Its revenues have shrunk, year-on-year, for 12 quarters in a row, and it has been making losses since 2002. Buried under the headlines about the love-in with Microsoft on April 2nd was Sun's announcement that the latest quarter's losses are likely to be $750m-810m—worse than expected—and that it is laying off 9% of its employees. Whereas its new friend, Microsoft, remains, in effect, a monopoly on the desktop and continues to reap monopoly rents, Sun is fighting for its very survival, or at least its independence. (Indeed, there has been talk that the new friendship may be a prelude to Microsoft buying Sun, though this seems unlikely.)

All dressed up and nowhere to go

This is the backdrop to Mr McNealy's sporadic, and admittedly entertaining, antics. In 2002, he mounted a stage dressed from head to toe as a penguin (the Linux mascot). He was hoping to convince investors that Sun had now embraced Linux. It does now ship some cheap Linux servers, but this is surely a token gesture, for sales of low-end boxes cannibalise Sun's core high-end business. Now it is Red Wings jerseys. There will be more.

These photo-ops, however, cannot change Mr McNealy's predicament. He must transform Sun radically, but into what sort of company? He has already cut over $1 billion in costs since the tech-bubble burst in 2000. And, after a series of top-level defections, he now has a new management team. The latest promotion, also on April 2nd, was that of Jonathan Schwartz, Sun's talented software visionary, to the number-two slot.

Mr Schwartz is thought to have persuaded Mr McNealy that Sun must become a software company. Mr Schwartz's dream is to sell deep-discount desktop computers at Wal-Mart, carrying Sun's office applications on top of a Linux operating system. But this would put Sun and Mr McNealy right back where they first ran into trouble, years ago: in Microsoft's way.

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Manufacturing in Japan

(Still) made in Japan

Apr 7th 2004 | TOKYO
From The Economist print edition

EPA

How are Japan's manufacturers faring against low-cost competition from China?

JAPAN'S manufacturing has been steadily moving overseas, most obviously to China. Among the reasons: wages in Japan are much higher, by a factor of between 20 and 30 times. Look more closely, however, and China is far from being the only threat facing Japan's manufacturers. Individual Japanese companies talk as much about competitors in America and Europe as they do about China. Some are most concerned about the technological prowess of South Korean firms such as Samsung and Hyundai.

Many Japanese companies are raising their game, using a range of strategies to fend off low-cost competition from overseas. Some of them are fortunate because they start from positions of relative strength. Leading firms such as Toyota and Canon have developed integrated manufacturing systems that are far more sophisticated and complex than rivals can manage. In other sectors, companies have learned how best to protect trade secrets that have long made them competitive, often bringing back home activities that might otherwise risk exposure to rivals. And most big firms believe that they can keep an edge in future by continuing to invest in new generations of products.

Japan's weak spot is in low-cost, mass production, which has been steadily leaving for lower-wage countries (just as it has also been seeping out of western Europe and America). There are only rare examples of Japanese companies trying to compete from a domestic base in the low-cost arena. One is Suzuki Motor. Its latest hit is a stripped-down budget scooter that costs one-third as much as regular scooters. Designed for urban short-distance drivers, it has eliminated some parts, such as rear suspension, once thought essential. Clever though this is, low-cost manufacturing in Japan is likely to be limited to niche products; Suzuki admits its efforts could be “a useless struggle” against an inevitable tide.

Although they interfere less than they once did, Japan's bureaucrats are concerned by the prospect of manufacturing, especially high-tech manufacturing, going abroad. Surely, the thinking goes, if one Japanese company builds a plant in China, and the technology is copied, then all of the firm's Japanese rivals will face cheap competition? Hidetaka Fukuda, who oversees information technology for the Ministry of Economy, Trade and Industry, says that METI stepped in earlier this year to persuade NEC, an electronics giant, to sell its plasma-display business to local rival Pioneer, rather than a foreign investor,

as a way to keep its technology in Japan. Mr Fukuda says that he is currently in similar negotiations with roughly ten other companies that might otherwise transfer technology abroad.

Sometimes cheap labour is not the prime motive for moving abroad. For instance, carmakers and construction-machinery makers say they have set up overseas simply in order to follow customer demand. Honda, Japan's second-largest carmaker after Toyota, says that, by building plants close to its markets, it can reduce production times, distribution costs and currency losses. Research facilities are set up overseas in order to tailor cars to meet regional needs, such as sports-utility vehicles in America with extra towing capacity, rarely required in Japan. Manufacturing techniques, such as welding methods, continue to be refined at home.

Indeed, many manufacturers are responding to competition by keeping core technologies secret and at home, while moving low-value-added production and assembly operations abroad. For instance, Toshiba, Japan's biggest chipmaker, is racing to develop high-end chips, and says it is determined not to repeat past mistakes. Initially it co-operated with South Korean chipmakers in basic DRAM memory chips, which have since become commodities, only to find its rivals overtaking it far more swiftly than it had expected.

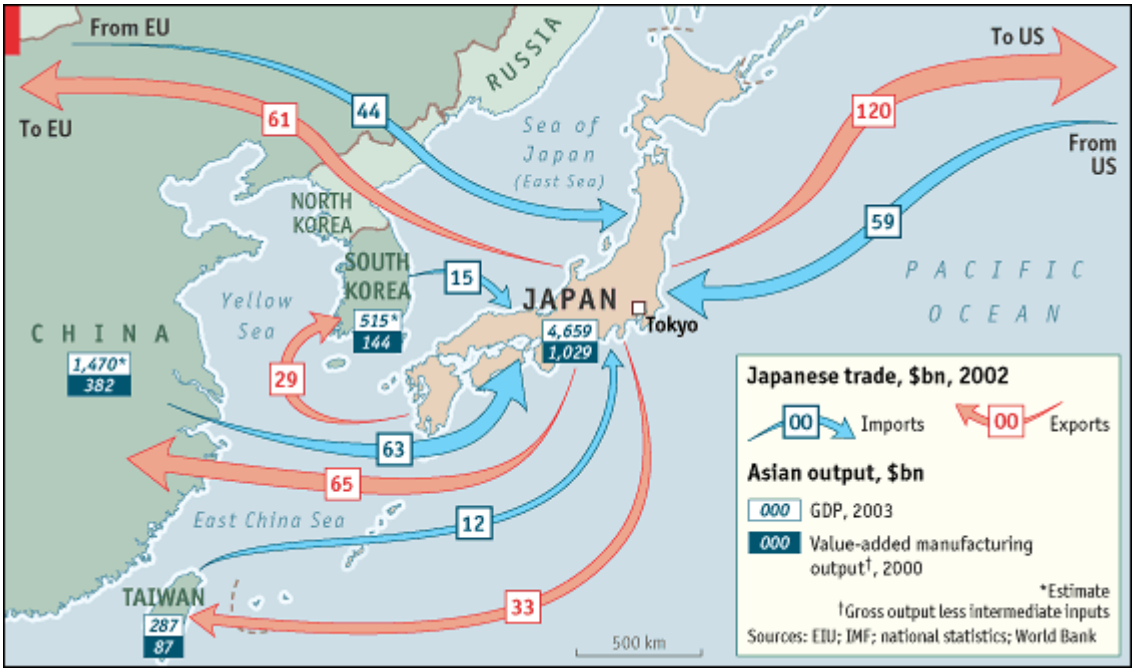
Others have discovered additional virtues in making things at home. Two years ago Kenwood's new boss, Haruo Kawahara, shifted production of mini-disc players from Malaysia back to Yamagata, Japan. This “in-sourcing” has raised profits in several ways, which highlight three long-standing advantages of the Japanese approach to manufacturing: specially trained workers, low defect rates and “lean” processes that hold down inventory costs and boost production flexibility.

Unlike Kenwood's Malaysian workers, who come and go frequently, workers in its Yamagata factory stick around long enough to master several different tasks. A typical Yamagata worker can quickly do four or five steps in the assembly process before handing over to another worker, whereas employees in the Malaysian plant did one step each. These days it takes four employees to put together a mini-disc player in Yamagata, compared with 22 Malaysian workers before the move. The Japanese plant takes up 70% less space, while the defect rate has fallen by 80%.

Mouldy business

An under-appreciated, but critical, sector of Japanese manufacturing is the country's mould-makers. Tiny, secretive firms generally consisting of less than a handful of workers, these craftsmen usually work in what look like dim, grimy, oversize garages, filled with worn machines and piles of scrap metal. Industrial moulds are used to create the shape and form of almost anything that can be picked up, from ballpoint pens and toys, to mobile-phone and satellite parts. The work is highly specialised. Many mould-makers, now in their 50s and 60s, started learning their trade when they were children.

The best firms, clustered around Ota, Shinagawa and Sumida wards in south and east Tokyo, make moulds, often prototypes, for the top international names in cars and consumer-electronics—and even for NASA, America's space agency. “Mould-making technology lies at the base of all manufacturing. If this were to start disappearing, it would be a danger sign for Japanese manufacturing,” warns Mr Kinoshita.



Opinion is split as to whether warning lights are now flashing. Since 1990, almost 40% of mould-makers in Sumida have gone out of business (and only one new one was set up), while more than a third of the remainder had no work at the start of the year, says Yukio Ouchi, an economic commentator who has studied more than 4,000 mould-makers. This reflects a broader trend. One street in Ota, once filled with top-notch mould-makers and other small manufacturers, initially dubbed “bankruptcy street” was subsequently renamed “suicide street”, reflecting growing pressure from loan sharks.

Kazuo Hori, president of Koyo Seiko, a mould-maker mainly for ballpoint pens, says he has lost almost half his business, mostly to China, over the past year or so. Though some big manufacturers are coming back because quality is higher at home, many mould-makers have gone bust during their absence. More disturbing is a recent trend in which unscrupulous Japanese manufacturers steal mould designs to send to cheaper Chinese makers.

Still, there are bright spots. Business is booming for mould-makers that specialise in car parts and mobile phones. Despite the overall decline, many of the best firms have managed to hang on, says Mr Ouchi. Diversification helps. Tohru Izumi, boss of Izumi Kanagata, counts every Japanese carmaker and, since the late 1990s, an increasing number of foreign carmakers, such as BMW and Jaguar, as recipients of car-audio panels made from his moulds.

Which bits of Japanese manufacturing will survive and flourish will depend on managers' ability to identify, hold on to, and improve, Japan's inherent strengths. In an influential recent article, “A Twenty-first-century strategy for Japanese manufacturing”*, Takahiro Fujimoto, a professor at Tokyo University, said it is too simple to suggest that Japan should focus on high-value-added production. What Japanese manufacturers really excel at, he argued, are “products whose functions require many components to be designed in careful detail and mutually adjusted for optimal performance”. This requires close teamwork within a company, as well as co-operation with suppliers.

The Japanese way

This ability to meld different skills and technologies is a common feature among top Japanese manufacturers in several sectors. For instance, successful photocopier companies, such as Canon and Ricoh, combine precision mechanics, advanced chemical processes for toner inks, and servicing skills. Cars, too, are all about mixing different technologies. “There is no ‘core' technology in cars,” says Mitsuo Kinoshita, chief production control and logistics officer at Toyota, Japan's top carmaker, which last year overtook America's Ford to become the second-largest seller of cars. For example, he explains, it is not enough to perfect a hybrid system (which combines an engine that runs on petrol with an electric motor) in the laboratory: an equal amount of expertise is needed to make sure it works when actually placed in a car.

It is hard, says Masahiro Sakane, president of Komatsu, Japan's biggest construction-machinery maker, to come up with fresh business models that exploit mixed technologies. Yet doing this well produces

rewards. Komatsu added information technology, such as global-positioning systems (GPS), to hydraulic excavators three years ago to combat theft, and help machinery-rental firms track how much fuel individual excavators had left in their tanks. Yet this has also unexpectedly helped raise sales of Komatsu's excavators in China, where the beginnings of a credit crunch are emerging—banks consider excavators with GPS easier to seize as collateral against soured loans.

One company in an excellent position to see how Japanese manufacturers are faring is Omron, which makes a range of sophisticated sensors and scanning devices that get used on other manufacturers' assembly lines. Omron sells these devices not only to Japan's domestic manufacturers, but also to firms building overseas plants in China (among other countries). Factories in China are upgrading their methods, and are buying more Omron devices to help. Factories in Japan, however, are hardly standing still.

One Omron product that is popular in both China and Japan is a scanner that inspects the substrate of printed-circuit boards for minute imperfections. In China, placing one of these scanners at the end of the line is good enough: defective products can be discarded before the rest are shipped to customers. In super-efficient Japan, however, detecting flawed products so late is seen as shamefully wasteful. So Omron has made a new system for Japanese clients that networks several substrate scanners together. Complex software gives a warning when aberrations start to appear—and then immediately pinpoints which machine needs tweaking.

Canon firing

Canon, which has a high-tech product line ranging from precision photocopiers, to optical components for digital cameras, to expensive equipment for making semiconductors and flat-panel television screens, is a good example of how Japanese firms are re-grouping in the face of competition from abroad. Fujio Mitarai, its boss, said earlier this year that over the next three years, 80% of Canon's global capital spending will be in Japan. Among other investments, it is building a high-end digital camera factory in Oita prefecture and a new research centre near Tokyo.

Canon is hardly naive about the benefits of outsourcing: 42% of its worldwide production is overseas. To maintain its technological edge and high profit margins, however, it must balance low-cost manufacturing abroad with the high-tech precision it achieves in Japan. Mr Mitarai told *The Economist* recently that he has a rough cut-off rule for allocating investment: anything for which labour comprises more than 5% of production costs can be done in China or some other low-wage country. Because Canon continues to invest in R&D, Mr Mitarai reckons there should be plenty left to do profitably in Japan. For instance, labour accounts for only 2% of the cost of its lithographic steppers, which are used in making semiconductors and fetch around $22m each.

Reuters

Low-cost scanner at work

Few of Japan's manufacturing bosses, however, are as relaxed as Mr Mitarai is about China. In Japan's vast electronics sector, for example, digitisation has forced business leaders to think long and hard about China's changing role. The rapid spread of new digital devices—such as DVD players, mobile phones and digital cameras—has allowed China to do something much simpler than moving from easy technologies to harder ones. Instead, it has actually leap-frogged the harder stuff (ie, analogue devices) to get to newer and easier digital products.

Manufacturers in China would have a dreadful time producing good conventional film cameras, for example, because of the complex optical, chemical and mechanical processes that must be mastered. But Chinese factories have little trouble assembling digital cameras: all they need to do is to obtain advanced components from Japan that are pre-designed to work in harmony when snapped together.

This combination of digital diffusion and Chinese expansion is driving two profound changes among Japan's electronics firms. First, it has widened an important split between makers of many final consumer products (such as Sony, Sharp and Matsushita's Panasonic brand) and the scores of focused Japanese firms that feed materials, components and equipment into the process. The second, related, change is a rapid erosion of the barriers that have long allowed Japanese manufacturers to protect their trade secrets.

Because China and other low-wage countries need their inputs to make digital products, Japan's focused suppliers and equipment-makers have been doing especially well. They boast large global market shares in specialised niches: ceramics and other fine materials for semiconductors, tiny motors for hard drives and other digital equipment, a range of sophisticated machines for making liquid-crystal display panels, and so forth.

The big consumer electronics companies, by contrast, make a wide range of both components and final products. China's growing production base and the spread of digital products thus presents the big firms with a confusing mix of threats and opportunities. They have lately been enjoying brisk global demand for mobile phones, digital cameras and DVD recorders, along with a rising appetite for flat-panel TVs and other higher-end home electronics. Yet they face tough competition and must rely on cost cutting and a steady stream of new models to maintain profit margins that are already low. They must keep shifting production to China, therefore, to keep up with one another.

Looking Sharp

The rapid movement of manufacturing to South Korea, Taiwan and China is, in turn, forcing Japanese firms to think much harder about which technologies to protect and which activities to leave in Japan. Since much of their edge depends on closely held trade secrets, this is becoming ever more difficult.

Earlier this year, Sharp opened a new “sixth-generation” plant to make flat panels for televisions in Kameyama, Mie prefecture, which cranks out panels much bigger than those made in fifth-generation plants. Sharp (and rival Samsung) is pushing the frontiers of this technology. Designing a new plant requires the sorting out of dozens of complex steps, each with its own specialised equipment, all of which must work seamlessly to churn out delicate panels with almost no defects. Sharp's reward is good profits at the relatively uncontested high end when it introduces bigger flat-panel TVs from newer and more efficient plants.

Nearly all of the important suppliers to Sharp are Japanese. That has been great news for Mie prefecture, which has been reinvigorated by a cluster of over 50 firms that have built facilities there to be closer to Sharp's Kameyama plant. Unfortunately for Sharp, however, its suppliers also work closely with its rivals, many of them Taiwanese. By the time the paint had dried in Kameyama, imitators in Taiwan were already cobbling together their own sixth-generation plants.

Sharp goes to great lengths to slow its rivals down. When a machine breaks down, engineers now try to fix it in-house rather than telling the supplier—just to keep equipment-makers in the dark about any problems that might occur on the machines they have sold to Sharp's competitors. For the same reason, the company quietly rewrites the software on some equipment once it is installed.

The cumulative effect of many such small steps is to defend Sharp's global market position from erosion, at least for now. Other Japanese manufacturers have absorbed this and other lessons. Having invented lean manufacturing, they are not about to let low-cost rivals have it all their own way.

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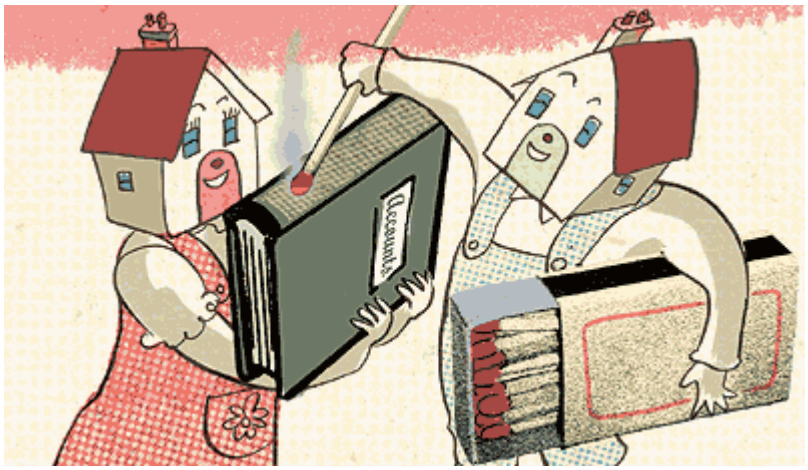
About sponsorship

Fannie Mae and Freddie Mac

Playing with fire

Apr 7th 2004 | NEW YORK
From The Economist print edition



The continuing concerns about America's twin mortgage giants

OF ALL the things that might upset America's financial system, top of most lists are Fannie Mae and Freddie Mac. The two companies stand behind $4 trillion-worth of mortgages; when that much money is involved, even a minor glitch can send tremors through financial markets. Recently both have had more than their share of problems with their accounts. There are shortcomings in their regulation. If there were a disaster, no one could say that it had come without warning.

Re-regulation has been talked about for years. But Fannie and Freddie are reckoned to be among the cleverest and most generous lobbyists in Washington. When the prospect of new rules looms, as it did recently, they seek popular support by running melodramatic advertisements claiming that change could make homes unaffordable for many Americans. Their most recent victory over their critics came on April 2nd, when their allies in Congress thwarted the efforts of the Bush administration to tighten their regulation.

Fannie and Freddie enjoy an implicit guarantee of their debt by the federal government. This gives them a great advantage in a business where the most significant cost is funding. The two have long argued that the true beneficiaries of this are homeowners, who pay lower interest rates than they otherwise would.

This is nonsense, according to no less an authority than Alan Greenspan, chairman of the Federal Reserve. Citing a Fed study, Mr Greenspan told Congress in February that the government guarantee gave the twin companies a funding advantage of 40 basis points (hundredths of a percentage point). However, a mere seven basis points were passed on to mortgage interest rates—an amount too trivial to have a substantial impact on home ownership. The rest went to Fannie and Freddie.

Worse, the guarantee means that Fannie and Freddie are not subject to normal market disciplines. That might encourage them to take extra risks—for which taxpayers would be expected to pay if anything went wrong. Fannie and Freddie are highly leveraged and do not pay for the associated risk. “There are many ways to enhance the attractiveness of home ownership at significantly less potential cost to taxpayers,” Mr Greenspan said.

Immovable objects

Republicans on the Senate Banking Committee pushed through a new regulatory package, with the initial support of the Bush administration. This would have ended Fannie's and Freddie's exemption from bankruptcy laws and placed any insolvency in the hands of a new regulator, who would also set minimum capital requirements and be funded by levies on the companies. Just before the final vote a provision was added, putting Congress in charge should Fannie or Freddie go bust. This would maintain the ties between legislators and the companies that the administration had hoped to sever. The administration therefore withdrew its support for the new law. Now nothing is expected to happen this year. If the Democrats take the White House in the autumn, nothing is likely for the next four years. Unless, of course, Fannie or Freddie blows up.

Short of outright disaster, the case for re-regulating Fannie and Freddie could hardly be stronger. Each has had problems with its accounts. Freddie's have looked the worse. It has acknowledged that it went too far in smoothing earnings in the past. It will not announce its profits for 2003 until at least the end of June. At the end of last year, it fired its chief executive, at great expense. Gregory Parseghian had spent half a year in the job, having being promoted from chief investment officer; he received a salary of $1m, a bonus of $4m and severance benefits of $14m. Yet many believe Freddie is in better shape than its sister, if only because its clean-up is more advanced. A deep accounting audit is under way. New contracts for its executives stipulate that bonuses will be paid only if there are no nasty surprises.

Fannie's accounting problems are more subtle. On April 1st its regulator, the Office of Federal Housing Enterprise Oversight (OFHEO) said that Fannie might have to restate its accounts, because its loans for manufactured (ie, prefabricated) housing and other assets had become impaired. The company issued a denial that was labelled “inaccurate and misleading” by OFHEO's director, Armando Falcon. It is hard to imagine such a dispute between a big bank and the Fed or the Securities and Exchange Commission.

Fortunately, Fannie's manufactured-housing portfolio, at $8 billion, is not big enough to cause a panic. More significant is its use of derivatives which, according to John Barnett, of the Centre for Financial Research and Analysis, provides a technically correct but misleading impression of earnings. When interest rates fall, homeowners refinance, creating a potential loss for mortgage holders. When this happened to Fannie, rather than take the loss up front, the company used derivative contracts that under generally accepted accounting standards amortised the cost over several years. Had the decline in the market value of its bond portfolio since 1997 been fully recognised, by last year Fannie's capital would have been 20% lower—enough to push its capital below the regulatory minimum.

Doubts about Fannie's figures have not gone entirely unnoticed in the markets: its share price is depressed. If there are more questions about the twin companies' accounts, even their friends in Congress may one day bow to change. That, however, has been said before.

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Russia's economy

Command and control

Apr 7th 2004 | MOSCOW
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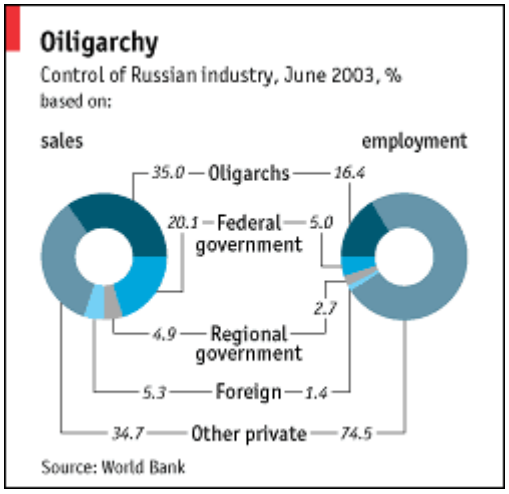
From communism to concentration



DISTORTIONS are to be expected in any economy making the slow journey from socialism to capitalism. Russia has more than most. Working out which of these distortions date back to the Soviet period and which have emerged during the wild ride since 1991 is no easy task. The World Bank's biennial report on the country, published this week in draft form, tries to tease these apart. It is likely to stoke a burning debate about the role of the "oligarchs", the industrial magnates who control much of the economy.

The report poses a question to which President Vladimir Putin would dearly like to find an answer: what will it take to keep the Russian economy growing? In Mr Putin's first term the economy did well, thanks largely to rising oil prices and the recovery from the 1998 financial crash. Now, however, restructuring and new investment are required.

One legacy of communism is a lot of biggish cities in remote, cold places, whose economies often depend on huge, Soviet-era factories. That, in turn, means that although Russia's factories are too big to be efficient, its companies are too small: there are no western-style carmakers or electrical-goods firms, say, with networks of manageably sized plants. Yet there are also too few small businesses, which have more trouble than big ones getting bank credit and fighting off the predations of criminal gangs and corrupt, or merely officious, bureaucrats.

The economy's other big weakness is its dependence on natural resources, especially oil. Another World Bank study this year found that the energy sector's share of GDP, officially 9%, is closer to 20%. Such riches can be deadly, says the report. The federal government has too often blown oil revenues on bailing out regional governments, which use the money to mop up unemployment by creating public-sector jobs.

None of this is surprising. The main novelty in the report, however, is its analysis of ownership concentration, an effect of the rigged privatisations of the 1990s in which many oligarchs acquired their companies for tiny fractions of what they are now worth. These firms hulk over the rest: the ten largest ownership groups account for some 60% of the Russian stockmarket, a concentration matched in recent times only in Suharto's Indonesia. The oligarchs are under attack from Mr Putin: one, Mikhail Khodorkovsky, was arrested last October and remains in custody. Their defenders argue that they are doing most to consolidate and modernise Russian industry. What does the evidence say?

The report's authors commissioned surveys all over Russia to assemble "the first detailed database" of often murky ownership structures, and matched the results with data on economic performance. They found that, unsurprisingly, big financial-industrial groups (they avoid the charged word "oligarchs") and foreign owners invest more than government or other private owners. But this is mainly true only in the energy sector; elsewhere the gap is slight. Many magnates are branching out into other industries, but they do not seem to run their companies any more efficiently than the average.

The authors then mapped the ownership database against regional laws that give individual firms preferential treatment, such as tax breaks. The result was a list of 25 "captured" regions (out of 89) that are evidently under the sway of one or a few big companies. In fact, the oligarchs are less likely than other owners to get preferential treatment. But when they do, they squeeze more benefits out of it than

other owners can, and other local businesses suffer more as a result.

Because ownership is often a secret, some of the data are only a first stab at the truth. But the report is the clearest evidence yet of the need to make life easier for smaller and non-energy businesses. Now, with a glut of oil revenues, is a good time to cut taxes and bureaucracy, fight corruption, strengthen (or create) antitrust enforcement, invest in infrastructure and so on. It is the usual prescription—but it is needed to end Russia's dependence on a few sources of growth.

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About sponsorship

Accounting for employees' stock options

The right option

Apr 7th 2004
From The Economist print edition

America's accounting-standards board has another go

Get article background

DOES persistence pay? The Financial Accounting Standards Board (FASB), America's maker of accounting rules, is about to find out. On March 31st it published its second proposal to force companies to deduct the cost of employees' share options from profits. Its first attempt was quashed by Congress in 1994 after furious lobbying led by the technology industry. This time the fight could be even fiercer.

On the day the FASB made its proposal, more than 70 technology executives fanned across Congress to tell legislators that the FASB's rule would slow job creation—a pointed message in an election year. Already a bill meant to derail the FASB's idea, sponsored by the congressman who led the opposition in 1994, has over 90 adherents. The accounting board has some friends, though: on April 2nd the Congressional Budget Office, a government watchdog, released a report supporting the FASB's plan.

The rulemakers see that in economic terms, employees' share options are a form of pay and should therefore be accounted for in the same way as salaries or stock grants. In February the FASB's European counterpart adopted a rule requiring stock options to be treated as a cost. Political meddling could therefore prevent the FASB from bringing American accounting rules into line with international ones.

The FASB's proposal would compel companies to show the “fair value” (ie, the market price) of stock options in their accounts, rather than their “intrinsic value” (the difference between options' exercise prices and the prices of the underlying shares), which is often zero. Institutional shareholders, angered by corporate-governance scandals, increasingly support this. For instance, investors in Intel, a giant semiconductor-maker, have re-submitted a proposal, narrowly defeated last year, to force the company to treat its employees' stock options as an expense. According to the Investor Research Responsibility Centre, a research firm, there were 116 such shareholder proposals last year, up from nine in each of the previous two years.

The FASB's critics argue that the current system, of disclosing the fair value of stock options in the footnotes to financial reports, is good enough. They also say that the FASB's proposal would stifle innovation, because young, cash-poor firms often rely on options to attract talented staff. The critics add that the models used to measure fair value are unreliable.

Do companies really have much to fear from the proposed rule? Certainly, accounting profits will be lower if the FASB has its way. According to analysts at Credit Suisse First Boston, an investment bank, treating employees' stock options as a cost would have shaved 19% off the profits of the firms in the S&P 500 in 2002 and 8% in 2003. Apple Computer would have had to report a loss last year.

But a study by Towers Perrin, a consulting firm, found that the share prices of 300 firms that had chosen to treat stock options as an expense were not affected by the change—a sign that the stockmarket may weigh options efficiently. Venture capitalists, who make their living from financing start-up companies, might also be expected to see past the cost of stock options.

The two models used to measure the cost of employees' stock options are complicated, and they require a lot of data that can be manipulated. But this is also true of many entries in companies' accounts, such as the cost of pensions or the value of derivatives. And many options are traded, so that markets provide guides to their value. It would be a shame if the lobbyists again stop this reform. On rational grounds, the FASB should win this argument.

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German hedge funds

Wolves at the door

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Hedge funds are taking their time to enter Germany

UNTIL this January, hedge funds, the wild beasts of the financial markets, were excluded from Germany. Last year Hans Eichel, the finance minister, declared that the country's financial markets were poorer without them and proposed a new law, passed in November, to let them in. So far, however, only two funds have licences. Fund managers, brokers, custodians and their lawyers are wrangling with each other and with BaFin, Germany's financial regulator, over exactly how bits of the law, designed to protect investors, should be applied.

Hedge funds use advanced trading techniques to seek high absolute returns. They have produced juicy profits in other countries, and Mr Eichel's intention was to enrich the returns enjoyed by long-term German investors such as pension funds and insurance companies.

So far, however, there has been much fanfare but little action. DWS, Germany's biggest fund manager and an affiliate of Deutsche Bank, the country's biggest bank, has launched a fund of funds (which invests in other hedge funds). Lupus alpha, a Frankfurt investment company, has launched the first single hedge fund. But neither of these has had to address still unresolved legal wrangles that are holding others up.

The cause is a clash between the free-wheeling style of hedge funds and the law's concern with transparency and investor protection. The German law insists that a “depository bank” should hold hedge funds' assets, to prevent managers from absconding with the loot. Yet a hedge fund, which borrows stocks and deals in over-the-counter swaps and derivatives, needs to keep assets with its prime broker too. It cannot do both unless the bank and the broker are one and the same, or the broker is an agent of the bank.

Prime brokers—headed by Goldman Sachs, Morgan Stanley and Credit Suisse First Boston—do not like to act as anyone's agent. Dealing on behalf of hedge funds is an opaque and lucrative business. But because the law seems to require that the bank appoint the prime broker, they may have no choice. Memos are flying between BaFin and the banks' associations. The private-sector banks support the prime brokers, whereas the public-sector and co-operative banks want them to be subordinate. The few banks that can supply both services, for example Deutsche Bank and Dresdner Bank, are sitting pretty.

Sources close to the market believe this dispute will be resolved within a few weeks. The political will to get hedge funds going is strong. “The wolves are coming,” wrote *Börsen-Zeitung*, a financial daily, earlier this month. About a dozen German fund managers are working on launching single hedge funds or funds of hedge funds, or on getting a licence to sell existing offshore funds in Germany. For example, Arsago, a Frankfurt asset-management firm, has an offshore fund which it is waiting to upgrade to German status. The licence makes the product tax-free, which is a strong attraction.

Only funds of funds may be sold to retail investors. But the need for extra disclosure and more paperwork are a deterrent. The choice of hedge funds that can be included in a German fund of funds is limited to those willing to disclose the minutiae of their portfolio gains and losses; many are not.

DWS and Lupus alpha may benefit from having moved first. Their entry, however, is not much of a test of how well the new law will work. DWS has economies of scale and can use Deutsche Bank as both prime broker and depository bank; Lupus alpha's fund uses exchange-traded derivatives, not securities, so it needs no prime broker. Aquila, a fund manager in Hamburg, fears that the legal requirements will limit the range and potential returns of funds of funds constructed in Germany.

On the evidence so far, German hedge funds will be safer for the investor but bring less spectacular returns than those in Grand Cayman or Bermuda. The fee structure seems to anticipate this: a 2% management fee and a 10% profit share on average, rather than a 1% fee and 20% of the profits, the industry norm. As *Börsen-Zeitung* puts it, the real wolves may just trot off and hunt elsewhere.

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Exchange rates

Weighing it up

Apr 7th 2004 | KUALA LUMPUR
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Malaysia ponders alternatives to the ringgit's dollar peg

IRASCIBLE American politicians may not have noticed it yet, but China is not the only Asian country weighing the merits of a fixed exchange rate. As money drained out of Malaysia in the aftermath of the Asian crash of 1997, Mahathir Mohamad, the prime minister of the day, imposed capital controls and pegged the ringgit at 3.80 to the dollar. Controls on foreign capital have since been lifted gradually: the central bank lifted one of the few remaining controls on April 1st. Malaysians are beginning to wonder whether the ringgit peg might soon follow Dr Mahathir, who stepped down last October.

Abdullah Badawi, the new prime minister who also serves as finance minister, has said that the peg will not last “for ever and ever”. His deputy in the finance ministry, Nor Mohamad Yakcop, who designed the peg in the first place, says it should be reviewed if the dollar hits $1.40 against the euro or falls below ¥100. But both, along with the governor of the central bank, insist that the ringgit is in fine fettle for now.

Lately the dollar has regained some of its strength against the euro (the European currency now buys about $1.20), but continued to weaken against the yen (to about ¥105). Its fluctuations and Malaysia's economic recovery call the peg's usefulness into question. The government introduced it in 1998, arguing that it would bring much-needed stability to an economy in turmoil. With exports worth 80% of GDP in the mid-1990s, Malaysia could not afford uncertainty about the exchange rate. The ratio is now around 100%.

Today this argument could be turned on its head. For example, 10% of Malaysia's trade is with euro-area countries; the ringgit fell with the dollar by 17% against the euro last year and has since risen again. Admittedly, it has moved less far against the currencies of other Asian countries, its main trading rivals, and not at all against the Chinese yuan, which is also fixed against the dollar. But as long as the dollar remains volatile, the peg can hardly be considered a source of stability.

What is more, Malaysia's economy is not struggling any longer. It grew by 5.2% in 2003, and the central bank is projecting a rate of 6%-plus this year. Renewed growth is attracting capital back to the country. The stockmarket has risen by 11% this year, among the best performances of Asia's big markets. To maintain the peg, the central bank has built up reserves of $48 billion.

Mr Badawi's advisers argue that it would be better to switch to a new system while the economy is doing well, rather than wait for a new crisis. They would like to switch to a “managed float” akin to Singapore's, whereby the Singapore dollar trades in a narrow band against a trade-weighted basket of currencies.

Still, most economists see no need to hurry. Some worry that under a freer exchange-rate system the central bank may have trouble preventing money from flooding into the economy. But such concerns are likely to come to a head in China before they do in Malaysia. If China allows the yuan to appreciate, Malaysia can follow suit without hurting its exporters, who are already struggling to compete with their Chinese counterparts. America is not the only country that would like to pass the buck, so to speak, to China.

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Measuring America's economy

Grossly Distorted Product

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Are official statistics exaggerating America's growth?

DESPITE the welcome leap in American employment in March (see article), America's job market has been surprisingly weak in the past couple of years—surprising, at least, to economists. Some have explained this by pointing to rapidly rising productivity figures. Perhaps firms have not needed more workers. But there is another explanation: America's GDP figures, which have been strong, may be inaccurate, and may be exaggerating the extent of economic growth.

In the two years to the fourth quarter of 2003 America's real GDP grew at an annual rate of 3.6%. Going by past recoveries, this should have meant a rise in employment of 2% a year. Instead, non-farm payrolls have fallen. Most economists say that this reflects a sharp increase in productivity growth. Jan Hatzius, an economist at Goldman Sachs, is not so sure. Other economies that have enjoyed rapid productivity gains in recent years, such as Canada and Australia, have also seen strong increases in employment.

Nor does Mr Hatzius accept the argument that the employment figures have been understating job creation. It is too soon to tell whether March's data (which were published after his study) mark the start of a delayed catching-up. This leads Mr Hatzius to suggest that GDP is being overstated. The standard measure of GDP is calculated by totting up aggregate expenditure; but another estimate, found by summing incomes—which in theory should be the same—says that GDP has grown at an annual rate of only 2.8% since the end of 2001, 0.8 percentage points less than the expenditure measure.

Another piece of evidence is the unusual divergence of the growth rates of GDP in the goods sector and of industrial production. The two series used to track each other closely; but in the past two years a wide gap has opened up (see chart). In the year to the fourth quarter, industrial production rose by only 1.4%, while goods-sector GDP surged by 8.0%.

Industrial-production figures are likely to be the more reliable of the two, because they come directly from industry reports. In contrast, goods-sector GDP is estimated indirectly by adding together final sales of goods, changes in inventories and net exports. If goods-sector GDP is replaced with the industrial-production series in estimating GDP, then the economy grew by only 2.2% in the year to the fourth quarter, not the reported 4.3%.

Why might official statisticians be overstating America's GDP—and productivity with it? Mr Hatzius suggests that they may be undercounting imports of intermediate inputs of goods and services produced abroad by American firms that have outsourced jobs to cheaper countries. Since GDP is calculated as domestic spending plus exports less imports (including imports of intermediate inputs), this would lead to an overstatement of GDP.

For example, when American firms outsource call-centre and information-technology-support jobs to India and other Asian countries, the result should be higher imports of services, yet official statistics do not show such an increase. America's recorded imports of software services from India are also much smaller than India's reported exports of such services to America.

If Mr Hatzius is right, then jobs have been slow to pick up largely because this has been, at least until

now, an exceptionally weak economic recovery. That is exactly what you might have expected after the bursting of the biggest financial bubble in history.

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By invitation: Martin Ravallion

Pessimistic on poverty?

Apr 7th 2004
From The Economist print edition

In our issue of March 13th we wrote about global poverty. Martin Ravallion, one of the World Bank's foremost researchers, replies

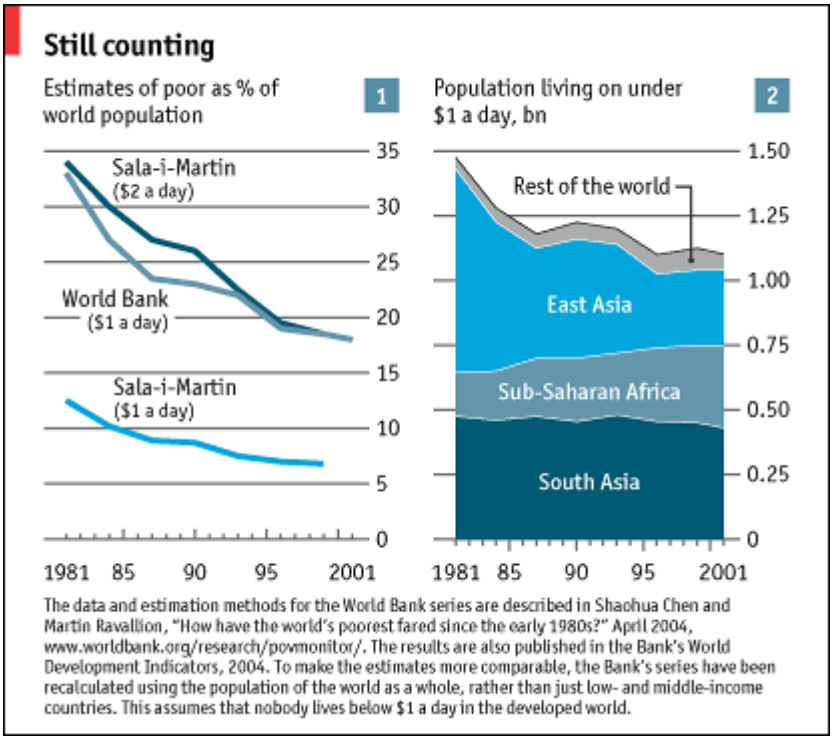
IN ITS issue of March 13th, The Eco*nomist* argued that the World Bank has overstated the extent of absolute poverty in the world—that there is less poverty than the Bank claims and that it is falling faster. A methodological debate lies at the heart of this claim. The Bank relies as much as possible on nationally representative household surveys, typically done by governmental statistics offices following international standards. The Bank's latest estimates draw on interviews with about 1.1m randomly sampled households in 100 developing countries, representing 93% of the population of the developing world.

The Bank's method of measuring poverty from surveys follows long-standing practices. But it is not the only possible approach. *The Economist* points to an alternative method that ignores data on levels of income or consumption from surveys. Instead the poverty measures are anchored to national accounts data, using the surveys only to measure inequality—the shares of total income accruing to different income groups. (It is unclear why proponents of this approach think that surveys can be trusted for measuring inequality, but not levels of poverty.)

How much does the choice matter? A striking graph in the issue of March 13th compares two sets of estimates, one from the Bank's researchers and one using this alternative method, namely the estimates made by Xavier Sala-i-Martin at Columbia University. His series shows a much steeper decline in absolute poverty and a much lower level in recent years than that found by the Bank's researchers.

However, *The Economist*'s graph is deceptive. This month, the World Bank's numbers as shown there have been superseded: the series shown began only in the late 1980s, and cannot be properly compared with Mr Sala-i-Martin's estimates, which go further back. The period under consideration makes a big difference. The late 1980s and early 1990s were a difficult time for the world's poor. Using either a longer period or a shorter one changes the picture a lot.

Chart 1 mimics *The Economist*'s graph, but now takes the Bank's estimates further back and deals with other comparability problems (see the note to the chart). The Bank currently estimates that the world poverty rate fell from 33% in 1981 (about 1.5 billion people) to 18% in 2001 (1.1 billion), when judged by the frugal $1-a-day standard at 1993 purchasing-power parity. Compare this with Mr Sala-i-Martin's estimates. He finds that the global poverty rate fell from 13% to 7% (in 1998). Yes, the levels differ substantially. But by both methods, the global poverty rate almost halved. The two trends are also similar for the 1990s, once growth had been restored in China and India.



Why are the Bank's poverty counts so much higher? Mr Sala-i-Martin uses GDP from national accounts to measure the average income per person of households. But GDP includes much more than household consumption; private investment and government spending, for example. This method must give lower poverty counts relative to a common poverty line.

But why would one use the same poverty line for GDP as for household consumption? The Bank's $1-a-day line is based on the poverty lines actually found in low-income countries, and those lines do not include allowances for investment and government spending; they typically include only the most basic food and other consumption needs. To compare Mr Sala-i-Martin's numbers with the Bank's, one should use a higher poverty line for the former.

It is not clear how much higher Mr Sala-i-Martin's poverty line should be to assure comparability with the Bank's $1-a-day standard. However, a good guess might be that his poverty threshold should be doubled to reflect the other items that he has implicitly included in his measure of income. Then, in fact, the two series line up rather well, as can be seen from chart 1.

Good news, for some

Despite the methodological differences, a similar trend of long-term reduction in poverty does emerge. That is certainly good news—but no cause for complacency. The 400m people who escaped absolute poverty by the $1-a-day standard over 1981-2001 are still poor even by the standards of middle-income developing countries. And the Bank's estimates indicate that the number living on less than $2 a day has risen from 2.4 billion to 2.7 billion.

Nor has the aggregate progress for the very poorest been shared by all regions. The number of people who managed to jump the $1-a-day hurdle in China during this period was also about 400m. So if one focuses on the developing world outside China, the number of poor has changed very little. Underlying this fact, it turns out that the composition of world poverty has changed noticeably (see chart 2). The number of poor has fallen in Asia, but risen elsewhere. It has roughly doubled in Africa. In the early 1980s, one in ten of the world's poorest lived in Africa; now the figure is about one in three.

Yes, on the whole the poorest people in the world have been doing better. But the fight against poverty is far from won.

Martin Ravallion is research manager in the Development Research Group of the World Bank. His main research

interests over the last 20 years have concerned poverty and policies for fighting it. He has advised numerous governments and international agencies on this topic.

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Science and the Bush administration

Cheating nature?

Apr 7th 2004
From The Economist print edition

The Bush administration has been accused of manipulating science. It is now fighting back

HOWEVER much its practitioners might wish otherwise, science is inevitably political. A lot of it is funded by taxpayers. Most of it has enormous—if often under-appreciated—effects on humanity. That, after all, is why taxpayers are called upon to fund it in the first place. Which science gets done, and how its results are applied, are thus legitimate concerns of governments and their policymakers. But one thing that scientists like to think really does distinguish their discipline from many other human endeavours is its honesty. Partly because they are taught to think that way, and partly because nature cannot be cheated, and thus scientists who cheat will be found out, science sees itself as a moral cut above most professions. This may be self-serving or a delusion, but it nevertheless means that scientists react badly to threats to their intellectual integrity. So when such a threat is perceived to come from the world's biggest funder of scientific research—the American government—things can turn nasty.

That is the context in which, on April 2nd, John Marburger, George Bush's science adviser, issued a strongly worded defence of his master's science policy. The document was a rebuttal of an open letter published on February 18th by more than 60 prominent scientists, many of whom have been involved in making science policy for both Republican and Democratic administrations. The letter had asserted, among other things, that "when scientific knowledge has been found to be in conflict with its political goals, the administration has often manipulated the process through which science enters into its decisions." The letter was supported by a report from the Union of Concerned Scientists (UCS), a think-tank and lobby group based in Cambridge, Massachusetts, which enumerated specific instances of what it claimed was political manipulation of scientific research and information, and of scientific advisory committees to the government.

He said, they said

One example cited in the UCS report involved William Miller, a psychologist and psychiatrist at the University of New Mexico. He said that when he was being interviewed for a position on a National Institute on Drug Abuse advisory panel, he was asked whether his views agreed with those of Mr Bush, and whether he had voted for him in 2000. Another is that of William Howard, an engineer who says that he was told by a member of the Army Science Board staff that his nomination to the board was turned down because he had contributed to John McCain's presidential campaign. (Ironically, he had not done

so—another individual with a similar name had.) The report also cites several examples of what its compilers say are underqualified candidates who were appointed to scientific advisory committees because of their political views.

Dr Marburger's rebuttal began by observing the increased funding given to scientific research by the Bush administration. It then went on to state that he believed the accusations in the UCS report were inaccurate and, furthermore, are not indicative of a sweeping trend.

Some of Dr Marburger's responses look justified—for example, his denials that the Bush administration overruled scientific advisers in acting to weaken the Endangered Species Act. Some, however, have a whiff of spin about them. He says, for instance, that an advisory group to the State Department, known as the Arms Control and Non-proliferation Advisory Group, has not, as the UCS report claimed, been disbanded. In actual fact, he said, the group's charter had expired and it was being reconstituted.

That may be what is happening. But as Richard Garwin, a physicist who chaired the board and has been an adviser to, among others, President Richard Nixon, points out, Dr Marburger neglected to mention that it has been 32 months since the charter expired, and the group has still not been reconstituted. As to the accusations of committee-packing, Dr Marburger's rebuttal merely states that the UCS report is wrong in all instances, without explaining why.

Yet the accusations have continued to proliferate. One of the most notorious cases since the release of the report is that of Elizabeth Blackburn, an eminent cell biologist at the University of California, San Francisco. She was fired from her position on the President's Council on Bioethics because, she claims, of her outspoken support for research on human embryonic stem cells, a promising but controversial medical technology.

In an essay in the April 1st issue of the *New England Journal of Medicine*, Dr Blackburn describes how her point of view, which she believes reflects the scientific consensus in America, was not included in the council's reports even though those reports were supposed to represent the views of all the council's members. The American Society for Cell Biology, a professional body, protested at Dr Blackburn's dismissal. It was met with a denial written in the following day's *Washington Post* by Leon Kass, the council's chairman (and a Bush supporter) that politics had played a role. The panel, Dr Kass said, was still representative of all shades of opinion. Some critics found this denial unconvincing, as the panel remains short on actual biological researchers, and long on members who have publicly expressed extreme religious views.

Another incident involved Howard Gardner, a psychologist at Harvard. Dr Gardner said in a radio interview on March 4th that Wayd Horn, an assistant secretary of the Department of Health and Human Services, struck his name and those of three colleagues from the list of speakers at an education conference co-sponsored by Mr Horn's department. Mr Horn gave no explanation for his decision, although he was eventually forced to apologise for disinviting the scientists. But all four disagreed with the administration's policy that four-year-old children in the government's “Head Start” education programme must be given standardised tests, and Dr Gardner thinks this is no coincidence. Indeed, incidents like this led him to say of Dr Marburger, “I actually feel very sorry for Marburger because I think he is probably enough of a scientist to realise he has basically become a prostitute.”

Dangerous games

Analysis of such a disagreement can, as this sort of name-calling suggests, easily devolve into a children's game of the “is not, is too” variety. But the open letter and the UCS report cover a lot of ground. Climate change, the value of “abstinence-only” sex education (which prohibits any mention of contraceptives) and the promotion of a non-existent link between breast cancer and abortion are all areas where questionable procedures are said to have been employed. In all these cases, Dr Marburger's response has failed to convince most of his critics.

To the extent that it is aimed at environmental and bioethical questions, which have long divided America on party-political lines, this disagreement could be seen as business as usual. However, it is not limited to those fields. There is a widespread feeling among scientists that Mr Bush is ignoring scientific results and opinions he does not like in other areas, too. In August 2003 the House of Representatives Committee on Government Reform made claims similar to those of the UCS report. But it also observed widespread scientific unease about the feasibility of the missile-defence systems proposed by the administration. This report has gone unanswered by Dr Marburger, as has a report made in July 2003 by

the American Physical Society (APS), a professional organisation for physicists in America. The APS report concluded that boost-phase missile defence, one element of the system planned by the Bush administration, would be ineffective.

These are serious accusations. Suppressing research into stem cells is causing that research to move abroad, which will damage America's biotechnology industry. But that will not be fatal to America's future, and opponents of stem-cell research might argue that it is a price worth paying for their beliefs. Monkeying with defence is a different matter. America's current military prowess has been achieved, in large part, because the country has listened to and lauded its physicists and engineers. Spending billions on technology that most of them believe will not work is, at the least, a dubious approach. Politicians can cheat nature no more effectively than scientists can.

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How to stop butterflies mating

No love, no pests

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From The Economist print edition

Natural "anti-aphrodisiacs" might be employed instead of insecticides

AS ROMANTIC gifts go, an anti-aphrodisiac sounds like the bottom of the heap. However, in the world of butterflies, it just might be the perfect present. Johan Andersson of Sweden's Royal Institute of Technology has discovered that some species of butterfly use anti-aphrodisiac chemicals when mating, and that such chemicals benefit both parties. However, that benefit may be short-lived, for Dr Andersson hopes to hijack the anti-aphrodisiacs to keep the butterflies in question (or, rather, their caterpillars) from consuming their favourite foodstuff—cabbages.

In some ways, sex is indeed a battle of the sexes. A male of any species will generally try to fertilise as many females as possible. A female, by contrast, must protect herself from bad propositions and be selective about her mates. However, for butterflies of the genus *Pieris* (the cabbage whites and their kin) mating has a collaborative element. Dr Andersson has discovered that the packages which male *Pieris* butterflies give to females during copulation contain, besides sperm and nutrients, a chemical anti-aphrodisiac. Once mated, the female smells of the anti-aphrodisiac. This usually persuades any other suitor to go away. Once she has laid her (now fertilised) eggs the anti-aphrodisiac is expelled, and she is ready to mate again.

The three species of *Pieris* investigated by Dr Andersson use different substances as anti-aphrodisiacs. The male green-veined white butterfly (*Pieris napi*) delivers methyl salicylate, a close relative of aspirin. The small cabbage white (*Pieris rapae*) uses a combination of methyl salicylate and indole. The substance used by the large cabbage white (*Pieris brassicae*) is benzyl cyanide. The arrangement benefits all parties. The first male is guaranteed paternity. Subsequent suitors can choose not to waste their sperm in competition with ones that have got a head start in the race to fertilise the female's eggs. And the female herself is not subject to sexual harassment while she is not fertile.

If this discovery had been made about almost any other genus of butterfly, that would probably be the end of the matter. But *Pieris brassicae* is a big pest in eastern Europe, Russia and India. The caterpillar of *Pieris rapae* is, as its name suggests, even more rapacious. In North America it is known as the imported cabbage worm, since it was accidentally introduced there from Europe in the mid-1800s. Nowadays, it damages crops of cabbages, Brussels sprouts, cauliflowers, broccoli and turnips all around the world. At the moment, it and its kin are controlled by killing them with insecticides. But deploying anti-aphrodisiacs to stop them breeding might be more effective.

That, at least, is Dr Andersson's hope. To which end he recently ran a pilot trial using the newly discovered anti-aphrodisiacs. The result was almost complete protection for the crops involved. Large-scale trials should follow soon.

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Cancer research

Stemming the tide

Apr 7th 2004 | ORLANDO
From The Economist print edition

Stem cells may be what makes cancers tough to treat

CANCER cells are distinguished by the fact that they multiply rapidly and in an uncontrolled manner. Hence, scientists and drug companies have developed drugs that kill cells which divide quickly, while sparing slow-growing—and thus presumably healthy—cells. The catch is that while such therapies often shrink tumours, they rarely cure the underlying disease. Patients often relapse years after an apparently successful treatment. At the annual meeting of the American Association for Cancer Research, which took place in Orlando, Florida, in the last few days of March, Michael Clarke, of the University of Michigan, in Ann Arbor, discussed why such relapses might occur. Dr Clarke believes that a small population of slow-growing cells in tumours—cancerous stem cells—may be responsible not only for the recurrence of tumours, but for the original cancers as well.

The idea that a small group of cells is responsible for populating a tumour is not new, but it had fallen out of favour because scientists had no way to prove or disprove it. However, Dr Clarke has adapted an existing technique used for sorting cells, and used it to distinguish between fast and slow-growing cancer cells. He has thus been able to test the hypothesis.

The technique works by mixing the cells to be sorted with antibodies that have fluorescent tags attached to them. Each sort of antibody will stick only to one sort of protein found on a cell's surface—and each sort is given a different tag, so that it glows a different colour. Cells that have different combinations of surface proteins thus glow in different colours. They can be sorted accordingly by a device that works like the ink-jet printer in a computer. Cells are sprayed out in individual, electrically charged droplets, recognised on the basis of their colour, and sent to their destination test tubes by manipulating the trajectories of the droplets with an electric field.

Dr Clarke found that by choosing a particular set of cell-surface marker proteins, he could separate tumour cells from breast-cancer biopsies into fast-growing cells, which make up about 75% of a tumour, and slow-growing ones, which comprise the remainder. The two populations behaved very differently when injected into mice. The fast-growing cells were unable to generate a new tumour, even when the researchers put 50,000 cells into an animal. By contrast, as few as 200 of the slow-growing sort gave rise to a new tumour.

That result alone is remarkable, says Dr Clarke. But even more important is the fact that the new tumour formed by these slow-growing cells looked exactly like the original tumour that was removed from the patient. When examined under a microscope it displayed a variety of cell types just like that of the original tumour, even though only one type of cell was injected into the mouse. Furthermore, when the team ground up such a tumour and sorted the cells by marker proteins, they found both fast- and slow-growing populations, in similar proportions to those found in the original tumour.

Undutiful daughters

The simplest interpretation of these data is that the slow-growing cells represent a stem-cell population for the tumour. In normal circumstances, stem cells give rise to a variety of different kinds of cells that make up a tissue or organ. When a stem cell divides, one of the “daughters” remains a stem cell while the other differentiates. The differentiated daughters continue to divide, and in doing so generate the cells that perform the actual work in a tissue. These daughters, however, can divide only a finite number of times before their progeny die. By contrast, stem cells can divide indefinitely. If the slow-growing cells in a cancer really are stem cells, as Dr Clarke thinks they are, it means that even as the other cells in a tumour are eliminated by treatment or the passage of time, the stem cells will persist. Because those

stem cells can then differentiate into other types of cells, the tumour can continue to grow.

This is not the first time that stem cells have been found in a cancer. John Dick, of the Toronto General Research Institute, in Canada, showed several years ago that such cells seem to be responsible for at least some sorts of leukaemia. More recently, several investigators have found that certain brain tumours contain small sub-populations of slowly dividing cells. Per Sakariassen and his colleagues at the University of Bergen, in Norway, reported to the meeting in Orlando that these slow-growing cells are capable of generating a variety of cell types which are found in brain tumours and that they can regenerate a tumour when put into rats. Therefore, at least three superficially different types of cancer—breast, blood and brain—apparently rely on stem cells for their formation and growth.

The discovery of cancer stem cells may explain why chemotherapy often fails. The cancer stem cells, like normal stem cells, have an uncanny ability to pump toxins, including chemotherapy drugs, out of their internal spaces. So, even when the bulk of a tumour, which is made of the fast-growing cells, is killed during treatment, the stem cells escape and are able to grow a new tumour.

Lest this all sound like bad news, Dr Clarke points out that knowing the root of a tumour allows researchers to develop therapies aimed at cancerous stem cells. One way to kill stem cells is to force them to differentiate into more specialised cells. Such treatments already exist, says Dr Clarke, but people have not been thinking about them in terms of stem cells. For example, testicular tumours can be either benign or malignant. The difference lies in whether immature cells that appear to act like stem cells are present in the tumour. If a pathologist sees such cells in a biopsy, the tumour is considered malignant. The patient is then treated with drugs that drive these cells to mature. As they mature, the cells lose their ability for self-renewal and the tumour is no longer malignant.

The trick now, says Dr Clarke, is to find molecules in cancer stem cells that do not exist in normal stem cells, or that act differently in healthy and unhealthy cells. With those molecules in hand, researchers can begin to develop drugs to shut down cancer stem cells, and switch off cancer's fountain of youth once and for all.

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Theodor Seuss Geisel

The temple of Seuss

Apr 7th 2004
From The Economist print edition

Getty

A definitive biography of one of America's best-loved children's authors

MANY of the eyes reading this article will have puzzled out the words and enjoyed the pictures in “The Cat in the Hat” and “Green Eggs and Ham” at some point in the past few decades. Some of them will have read the works of Theodor Seuss Geisel again and again, for themselves and for their children.

Dr Seuss, as he called himself, was the most irreverent and prolific writer for young children of the past century. He overturned the tedious, earnest conventions of American children's literature to make reading fun. This biography, the first scholarly study of the work of Seuss, puts him in the pantheon of children's nonsense writers, alongside Lewis Carroll and Edward Lear.

Dr Seuss: American Icon
By Philip Nel

Continuum Books; 301 pages; $27.95

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Amazon.com
Amazon.co.uk

It is a demanding comparison, but not unmerited. Just as Carroll enriched the English language with “chortled” and “galumphing”, Seuss invented “nerd” and “grinch”. The fox in socks is as entrancing and memorable as Carroll's walrus and carpenter, or Lear's owl and pussycat. But Seuss was more than just a writer of memorable, fanciful verse. His fantastical pictures, particularly the compelling facial expressions on his invented and exaggerated creatures, are better than Lear's inky sketches, and rank close to John Tenniel's classic “Alice” illustrations.

Like Lewis Carroll in “Alice”, Seuss goes beyond the playfulness of a child's imagination to deal with the sillinesses of grown-up life. The “Sneetches”, a people obsessed with stars on their bellies, is a tale with a gentle, funny message about racial prejudice; “Yertle the Turtle” is a parable about megalomania and dictatorship; the Lorax has an environmental moral; Horton, a motherly (male) elephant who hatches an egg, stresses “a person's a person no matter how small”. Bossed-about children can comfortably sympathise with messages like that.

Philip Nel's comprehensive biography will tell grown-ups more than they ever thought they wanted to know about Seuss. Those who have enjoyed his rhyme and rhythm, for example, will be interested to know that they are underpinned by a masterly poetic technique. Mr Nel's scansion reveals that Seuss's

favourite metre was iambs followed by anapests. Knowing this can help adults avoid narcolepsy during the 125th bedtime reading of “If I ran the circus”.

Few readers will know that Seuss was also an able propagandist in educating grown-ups. Born 100 years ago in Massachusetts to a German-American family, he drew anti-Nazi cartoons, well selected in the book, that show his disgust at the thuggish prejudice of the Third Reich. That was at a time when it was still fashionable in America to see the rise of totalitarianism in Europe as a disturbance between old-world countries of no interest to the United States.

Complex character

Books about children's authors are often flawed: what attracts children is hard for adults to pin down and analyse. Labours of love, especially a love born in childhood, are sometimes too detailed, too involved. Adults may well want to know a bit more about an author that they, or their children, have enjoyed. But they may not necessarily feel like slogging through the dense prose of a literary study.

A particular weakness of this biography is that it tries too hard to fit Seuss's strengths and weaknesses into a coherent picture, rather than accepting them as part of human nature in a different age. He was, by today's standards, very old-fashioned in his attitude to women. Complaints that his books featured no strong female characters met only contemptuous dismissal. He was commendably hostile to racial prejudice in principle, but unwittingly broke a present-day taboo by picturing Japanese-Americans as fifth-columnists in one of his early wartime cartoons.

Mr Nel criticises Seuss's lapses only to excuse him. But the drum of campus political correctness beats tiresomely in the background through much of the book. It is not just over questions of taste and style. The idea that Seuss made a huge amount of money, and that the copyright owners have a good continuing business from their “Disneyfication” of the titles and images, is portrayed as faintly disgusting, rather than as a tribute to their enduring and deserved popularity. There is bastardisation—but real fans can still buy the original versions in all their glory. Some of them may even want to buy this book.

Dr Seuss: American Icon.
By Philip Nel.
Continuum Books; 301 pages; $27.95

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About sponsorship

The letters of Sir John Gielgud

Of plays and play

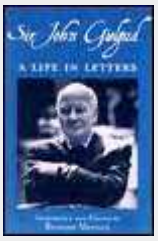
Apr 7th 2004
From The Economist print edition

THE principal interests of Sir John Gielgud were the theatre and sex. The only references to events beyond them in this exhaustive and intriguing collection of his letters are to the Abdication crisis in 1936, the Winter of Discontent in 1978-79, and the Thatcher government's decision to cut the top rate of tax from 83% to 60%. No matter: there is plenty to say about the theatre and about sex.

It was Gielgud's fate to become a great actor. The first letter, written in 1912 when he was seven, refers to his aunt, Ellen Terry, who was Sir Henry Irving's leading lady. He played Shylock at school and made his West End debut in 1923, aged 18. Writing in 1996, at the age of 92, he said: "I have no work in prospect, almost, I think, for the first time in my life."

His letters record great successes—from his Mercutio opposite Lord Olivier in 1936 to his Oscar-winning performance as a butler in a film called "Arthur" in 1981, which led the California winery Paul Masson to cast him in their TV advertisements. Gielgud would not permit these to be shown in Britain, but the money was so good that he never had to worry about tax rates again. Being a great Shakespearean actor was never a guarantee against failure, of course. His Othello at Stratford-upon-Avon was one of the great disasters of its time, and he was the first to know it.

Sir John Gielgud: A Life in Letters
By Introduced and edited by Richard Mangan



Arcade Publishing; 576 pages; $30. Published in Britain as "Gielgud's Letters" by Weidenfeld & Nicolson; £20

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Gielgud's arteries never hardened. His performance with Sir Ralph Richardson in a Royal Court production of a play by David Storey in 1970 started a Gielgud revival. He was not an indiscriminate admirer of the new, he loved Pinter and Storey. But he hated Beckett and Stoppard.

His closest friends were mostly members of an intimate and influential homosexual clique in the London and New York theatre world, people like Binkie Beaumont, an autocrat among West End managers, and Sir David Webster, general manager at the Royal Opera House, who was known as the Margrave. ("The Margrave promises I shall meet Nureyev before I leave. Jealous?") Gielgud himself was acutely conscious of a conviction in 1953 for soliciting in Chelsea, and blackmail was attempted in New York in 1958. Even after the decriminalisation of homosexuality, he remained fairly discreet in public. In private, however, he was "one of the senior girls" and we learn at length of his especial fondness for corduroy trousers.

Richard Mangan used slightly less than half the 1,600 letters at his disposal, although Gielgud himself might have thought that approximately 225,000 words was occasionally "rather" repetitious. Friendship is the heart of the matter. Besides his lovers, he wrote to and about the other great actors of his generation, like Olivier ("I was, I confess, always a bit afraid of him for he had a certain remoteness and spiritual authority"); Sir Ralph ("I loved him"); and Dame Peggy Ashcroft ("What a good person she was—so rare and special"). In a society which does not revere age and experience, these letters make a compelling case for gerontocracy.

Sir John Gielgud: A Life in Letters.
Introduced and edited by Richard Mangan.
Arcade Publishing; 576 pages; $30. Published in Britain as "Gielgud's Letters" by Weidenfeld & Nicolson; £20

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About sponsorship

The cost of drugs

Pill-gotten gains

Apr 7th 2004
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THERE are few industries which have fallen in public esteem quite so far and so fast as drugmaking. Once celebrated as the engine of modern medical innovation, pharmaceutical firms are now lambasted for the low productivity of their research, their wasteful marketing and, above all, for the high prices that their products command. The drug companies defend their prices, and their profits, by citing the high cost of making drugs. The bulk of that cost—the more than $800m required to develop a new drug, according to one controversial estimate—provides the title of Merrill Goozner's book.

Mr Goozner, an economics journalist, challenges the drugmakers' defence. With detailed accounts of the rise of some of today's blockbuster drugs, such as Epogen for anaemia, “The $800 Million Pill” shows how much of the early development of these medicines comes from public-sector research, and how the cost of turning a bright idea into a life-saving medicine comes from the taxpayer's pocket, not just the company's coffers.

He argues that drug companies need to shift their attention, and their money, away from “me-too” drugs, which offer little benefit beyond those already available, towards truly innovative medicines which might indeed justify higher prices. To this end, Mr Goozner suggests that a new government institute be established in America, where the pricing debate is fiercest, in order to compare the performance of drugs on the market. Drug companies are understandably reluctant to perform such tests since they might scupper their latest product.

“Providing physicians, consumers and payers with better information will force drug companies to pare back meaningless and therefore wasteful projects,” he argues. It is an interesting idea and, indeed, one that is already in practice in some countries. Alas, such are the powerful entrenched interests in drugmaking that it will take something stronger than a dose of information to calm the current fever over pill-pricing.

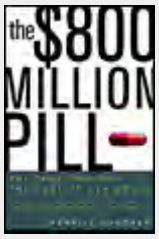
While drugmaking has certainly become a more costly and controversial business in recent years, the path to miraculous medicines has never run smooth. A case in point is the development of penicillin, detailed in a new book by Eric Lax.

History gives most of the credit for this revolutionary drug to Alexander Fleming, a Scottish scientist who first noticed the powerful anti-bacterial effects of a fungus growing in his laboratory in 1928; the reality is that penicillin would have remained a scientific curiosity had it not been for the ingenuity and tenacity of a group of scientists at Oxford University led by Howard Florey, an indomitable Australian.

The book's title, “The Mold in Dr Florey's Coat”, refers to the desperate times in which this life-saving medicine was born: working in the shadow of the second world war and often short of funds, the Oxford scientists planned how to save their research should the Nazis invade Britain. Their idea was that they would sow spores of penicillin-producing fungus in their clothes, and then carry their work literally on their backs to safer shores.

“The Mold in Dr Florey's Coat” debunks many of the myths surrounding the discovery of penicillin, revealing its developers' tense relationships and shedding new light on one of its unsung heroes, Norman

The $800 Million Pill: The Truth Behind the Cost of New Drugs
By Merrill Goozner



University of California Press; 296 pages; $24.95 and £16.95

Buy it at
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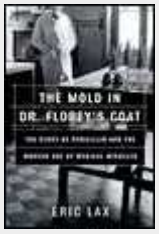
The Mold in Dr Florey's Coat: The Story of the Penicillin Miracle
By Eric Lax



Henry Holt; 320 pages; $25

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Heatley, whose technical virtuosity was essential for early production of the drug but who, unlike his more famous colleagues, went unrewarded by a Nobel prize. Today, scientific and commercial concerns mean there are few drug companies that take an interest in developing new antibiotics. Yet growing bacterial resistance to existing drugs and novel microbial threats make the urgency which drove the original development of penicillin as vital as ever.

The $800 Million Pill: The Truth Behind the Cost of New Drugs.
By Merrill Goozner.
University of California Press; 296 pages; $24.95 and £16.95

The Mold in Dr Florey's Coat: The Story of the Penicillin Miracle.
By Eric Lax.
Henry Holt; 320 pages; $25

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New fiction: Frank Huyler

A doctor writes

Apr 7th 2004
From The Economist print edition

ONE of the limitations of much modern fiction is the fact that its authors spend so much of their lives sitting alone in a room. Thus fiction fashioned by practitioners of another profession can be refreshing for the information and insights that experience outside a book-lined room provides. Frank Huyler is a medical doctor, and his first novel, “The Laws of Invisible Things”, benefits enormously from combining familiarity with medicine with a fine writer's perceptiveness about the world at large.

The protagonist, Michael, is also a doctor, who has joined a small practice in North Carolina after his divorce. He sees a patient whose peculiar symptoms do not conform to any known disease, but before he has a chance to diagnose the man's ailment, the patient dies in a fire. Thereafter, Michael himself begins to demonstrate the same elusive symptoms, whose subtly mystical character and tendency to come and go torturously suggest that the problem may be in his head.

The Laws of Invisible Things
By Frank Huyler

Henry Holt; 320 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

Mr Huyler manages to inject his story with a high degree of suspense. But its primary pleasures, as with so many good novels, come line by line and scene by scene. The book is rife with stoically related medical detail so vivid as to make the faint-hearted squirm. No layman would ever have been able to craft the scene in which a catheter is inserted into a pig's heart by watching “ER”. Observations such as “his patients were more likely to talk when they knew they would not be touched” have a ring of authenticity that is hard to fake.

The clear, spare text is also sprinkled with insights of a broader character: “It was the kind of neighbourhood that people both aspired to and settled for”, while Michael's father was an air-force navigator whose “entire working life had been spent both hoping something would happen and hoping it wouldn't.”

Be forewarned that the ending is less than fully satisfying. But otherwise Mr Huyler has written a compelling, curious book with rewards on nearly every page. However unwelcome, perhaps the best advice to aspiring fiction writers might be: first, go get a job.

The Laws of Invisible Things.
By Frank Huyler.
Henry Holt; 320 pages; $25

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About sponsorship

Colombia's guerrillas

Death to the alternative

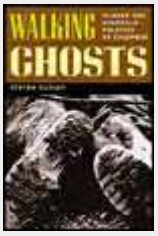
Apr 7th 2004
From The Economist print edition

IN THE mid-1980s, Colombia's FARC guerrillas, engaged in peace negotiations with the government, launched (with the government's blessing) a political front. Called the Unión Patriótica (UP), in its heyday it managed to elect a dozen or more mayors (out of the country's total of 1,100), a few score municipal councillors, and a couple of congressmen. Its presidential candidate, later assassinated, gathered some 329,000 votes in the 1986 election, where the winner got 4,213,000.

But more than a thousand of its leaders and members were killed or disappeared in the ensuing years—one organisation close to the movement puts the figure at 1,286, others put it even higher. The killings reduced the UP to insignificance.

The whys and the wherefores of the party's brief history are the central subjects of Mr Dudley's book. The FARC and its mentor, the Colombian Communist Party, were wedded to the doctrine of “the combination of all forms of struggle”, which meant that unarmed political activity was to be carried on by the UP while the FARC continued with the other varieties.

Walking Ghosts: Murder and Guerrilla Politics in Colombia
By Steven Dudley



Routledge; 272 pages; $27.50 and £18.99

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AP

Apart from sporadically engaging the police and, more rarely, the army, these included the selective assassination of political rivals and opponents, kidnapping, extortion, controlling and taxing the drugs business, and seeking further tactical and strategic advantage through peace talks. As in many other places where this doctrine has been followed—Northern Ireland is probably the most familiar—the results were frequently fatal to soft targets, the exposed unarmed components of the combination, whom neither the FARC nor the national government could defend.

Drugs compounded the impossibilities. The majority of those killed in the UP were victims not of the government, nor of elements in the armed forces, but of the drug barons and their paramilitaries who regarded the FARC and anything connected with it as their rivals in the trade. The UP's plight was made the more hopeless by the ambiguities and insincerities of the FARC leadership. It persisted in trying to combine the uncombinable, heedless of the increasingly desperate appeals from the UP that it should modify its line, or at least make more convincing conciliatory gestures towards peace.

The more militaristic FARC chiefs were not sorry to see the UP experiment fail: “The FARC, meanwhile, had the perfect excuse to hang on to its guns forever,” says Mr Dudley. “Anytime anyone mentioned disarmament, the FARC said the words ‘Unión Patriótica'.” The argument is still made when it suits the FARC, and it is a particular favourite of the guerrillas and their supporters for use outside Colombia. It is combined with the assertion that what happened to the UP proves any centre-left politics impossible, a conclusion that no fair observer of the country's tenacious and varied democracy can accept.

“Walking Ghosts” is not a comfortable read for anyone concerned with Colombia; it shows the size of the task facing any government there that tries to guarantee a minimum of peace and security for its citizens. It will be least comfortable, if they read it, for those who continue to sympathise with guerrillas who have long since ceased to deserve their solidarity.

Walking Ghosts: Murder and Guerrilla Politics in Colombia.
By Steven Dudley.
Routledge; 272 pages; $27.50 and £18.99

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About sponsorship

Clowns in art

Smiles of sadness

Apr 7th 2004 | PARIS
From The Economist print edition

What clowns and painters have in common

THE figure of the clown, the buffoon who can get away with throwing thinly veiled truths in the face of the powerful, has a long and almost universal history. Found in ancient Egypt and among the Aztecs of Mexico, it evolved into the court jester popular in medieval Europe and the *arlecchino* (or harlequin) of the *Commedia dell'Arte* Italian street theatre.

In the 18th century, during the declining years of the Venetian empire, the Venetian painter Giandomenico Tiepolo (1727-1804) painted troupes of travelling players from northern Italy, intrigued by their masks and extravagant costumes; in the 19th and early 20th century, artists such as Daumier, Picasso and Toulouse-Lautrec were intrigued by clowns in particular and the world of the circus in general.

A huge, colourful collection of paintings, sculpture and film currently on show in Paris* examines the history of the relationship between art and clowning, from early in the 18th century to the present day. It is the largest exhibition ever devoted to such a theme. Some of the artists it brings together are much neglected, and undeservedly so. It includes, for example, a massive four-part painting called “Circus Performers: Grimaces and Misery” by the Parisian artist Fernand Pelez (1843-1913). The painting, over six metres long, shows the performers presenting themselves to the public on a stage.

The main question the exhibition raises is why should an artist such as Picasso have wanted to dress up as a harlequin in a diamond-patterned coat and a cocked hat? Why, indeed, should so many artists have turned to the circus as a fitting metaphor for their own role in society? The answer seems to lie in the heyday of Romanticism and its aftermath, when the role of the clown became associated somehow with the artist's own ambivalent status. While raising uncomfortable questions of their audience, both also need the approval and support of large parts of that audience.

Clowning is a kind of innocent magic, divorced from day-to-day reality and enacted within a world of uncomplicated enchantment. But to be a buffoon is also to mock the respectable behaviour of the laughing audience. And then there is the pathos of clowning. Circuses come and go, and clowns have no fixed abode. Much of this description could apply equally well to the artist, as artists themselves gradually came to recognise. What the artist provides is not necessarily something that anyone wants. An itinerant entertainer of sorts, he is also something of an outcast.

The show's final exhibit is “Ballerina Clown at 2,842,325”, a giant, red-nosed mannequin of a dancing clown-cum-tramp, created by the American artist Jonathan Borofsky (b. 1942). One of its legs, adorned in spangly purple tights, twists to the sound of someone singing “My Way”. The ways of clowns and artists, it seems, have much in common.

* “The Great Parade: Portrait of the Artist as Clown” is at the Grand Palais, Paris, until May 31st and then at the National Gallery of Canada, Ottawa, from June 25th-September 19th

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About sponsorship

Princess Juliana of the Netherlands

Apr 7th 2004
From The Economist print edition

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Princess Juliana of the Netherlands, a commoners' queen, died on March 20th, aged 94

KINGS and queens are not ordinary folk. Though they breathe, sweat, defecate, make love and lose their tempers like the rest of humankind, a certain aura still surrounds them. In Britain, the best efforts of the tabloid press cannot quite disperse it. When a *Daily Mirror* reporter discovered that the royal cornflakes were kept in Tupperware containers, this did not trump the fact that they were eaten with solid silver spoons. And when the queen is photographed unflatteringly trudging through the Scottish rain, her silk headscarf is knotted exactly on her chin in a way no mere subject can aspire to.

As a member of the ruling house of the Netherlands, and as its queen for almost 32 years, Princess Juliana could not entirely avoid the glow and glitter of royalty. She spent almost all her life in palaces with servants. She wore ermine and tiaras. From the age of 11, she had private tutors. At 18, as was her prerogative, she was installed in the Council of State. And when it came to marriage-time her formidable mother arranged it all, from finding the suitor (His Serene Highness Prince Bernhard of Lippe-Biesterfeld) to drawing up a contract in which he was told, in no uncertain terms, how he was expected to behave as Juliana's consort and how much money he would get.

Nonetheless, Princess Juliana chafed at this, and she soon made a campaign of throwing majesty aside. She sent her children to state schools and bought her bread in the local supermarket. She was photographed cycling round the roads in frightful off-the-peg frocks. In suburban Ottawa, where she spent most of the second world war in exile shortly before becoming queen, she would queue up for a ticket at the local cinema and offer to babysit for neighbours. As queen, she liked to drop in at schools or hospitals on a whim and with no ceremony, like an ordinary mother checking on her children. Visitors to Soestdijk Palace would find the queen pouring the tea herself; and had they tried to curtsy she would have stopped them, for she had abolished it.

The Dutch were not always sure how to take this. Their queen, though lovable, perhaps did not understand the elevation of her position. A sovereign who took the risk of riding a bike, without attendants to scoop her solicitously from the road if need be, was perhaps a political liability. Nor did Princess Juliana always prove them wrong. She got into trouble for relying heavily on a faith-healer, who believed in earth-waves and aliens, to cure her youngest daughter from near-blindness. To some she seemed too ready to dismantle the hard-won and far-flung Kingdom of the Netherlands, granting

sovereign independence first to Indonesia and then to Surinam. And she caused diplomatic horrors when, in a speech to America's Congress at the height of the cold war, she naively called for “more mutual understanding among the nations”.

Republican dreams

When she abdicated in 1980 in favour of her daughter Beatrix, the present queen, it occurred to some that this shy, plain woman might never have wanted majesty very much. Yet her diffidence and down-to-earthness was peculiarly suited to her country. The Dutch came to monarchy very late, in 1815, just as much of Europe was sending its crowned heads to exile or the guillotine. Before that they had known two centuries of splendid middle-class rule, when prosperous merchants in tall black hats had sent out ships to the far ends of Asia and, with the profits, sponsored De Hooch and Vermeer. To be bourgeois in 17th-century Holland was to be quite grand enough. The industrious money-men who ruled the country did so without land or foppery or extravagant manners, and without king or court.

When they acquired a crowned head, it was one of an odd kind: a descendant of a freedom-fighter against the king of Spain. From its beginnings, therefore, the House of Orange had a streak of populism in it, and the Netherlands under its kings was still, at heart, a republic. Princess Juliana merely gave expression to the Dutch conviction that no man should make himself grander or greater than another. Logically, this should have made monarchy irrelevant, and her position perhaps that of chief social worker. In practice, it seemed to charm even those, like the Socialist Party, who longed for the return of the men in black hats.

Her finest hour came in 1953, in Zeeland, when the worst storms in 500 years burst the dykes and claimed more than 2,000 lives. In an old coat and wellingtons, the queen slopped through floods to take food and clothing to people driven from their homes. She did so partly in her capacity as president of the Netherlands Red Cross, a role in which she had organised famine relief in her newly liberated country in 1945. But she did so also to show she was an ordinary woman, suffering and labouring against the elements like any farmer's or merchant's wife.

The representatives of the House of Windsor, bravely touring the East End of London during the Blitz, still showed with hats and handbags and graciously extended hands that they were a class apart. Princess Juliana's attitude was summed up in her words as, in 1948, she acceded to the throne: “Who am I that I may do this?”

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Overview

Apr 7th 2004
From The Economist print edition

America's economic recovery has become much less “jobless”. Non-farm payrolls surged by 308,000 in March, the biggest leap in employment in four years and nearly three times most economists' forecasts. Earlier months' figures were also revised: January's non-farm payrolls grew by a revised 159,000, up from 97,000 and February's by 46,000, up from 21,000. Despite the good news, however, the current economic recovery has produced fewer jobs than any other since the second world war. Unemployment rose to 5.7% from 5.6%, as previously “discouraged” workers re-entered the labour force.

The strong American jobs figures lifted the **dollar** to a four-month high against the **euro** of $1.20. **Sterling** rose to a one-year high against the euro of £0.66.

Euro-area indicators were mostly gloomy. A purchasing managers' index for the euro-area services industry fell in March. Unemployment in **Germany** rose to 10.4% in March from 10.3% in February, as 44,000 additional people were seeking work and could not find it. Retail-sales growth in the euro area slid to 0.5% in the year to February, from 1.0% in the year to January. In February, retail sales fell by 0.8%. Industrial production in **Spain** rose by 2.0% in the year to February.

Industrial production in **Britain** fell in February, contrary to expectations, by 0.6%; it fell by 1.3% in the year to February.

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Output, demand and jobs

Apr 7th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 4.0	Q4	+ 5.5	+ 3.9	+ 3.1	– 0.1	Q3	+ 7.3	Q4	5.9	Feb	6.1
Austria	+ 0.8	Q3	+ 1.4	+ 1.6	+ 2.0	+ 3.4	Oct	– 4.8	Jan	4.4	Feb	4.2
Belgium	+ 1.2	Q4	+ 2.4	+ 1.8	+ 2.0	+ 1.2	Jan	– 0.7	Dec	12.8	Feb†	11.8
Britain	+ 2.7	Q4	+ 3.4	+ 3.2	+ 2.6	– 1.3	Feb	+ 6.5	Feb	4.8	Jan††	5.0
Canada	+ 1.6	Q4	+ 3.8	+ 2.8	+ 3.3	+ 0.5	Jan	+ 0.8	Dec	7.4	Feb	7.5
Denmark	+ 1.0	Q4	+ 2.4	+ 1.8	+ 2.2	– 1.0	Feb	+ 1.8	Dec	6.5	Jan	5.5
France	+ 0.6	Q4	+ 1.8	+ 1.8	+ 2.1	+ 0.9	Jan	– 2.2	May	9.6	Feb	9.4
Germany	+ 0.2	Q4	+ 0.9	+ 1.4	+ 1.7	+ 1.9	Jan	– 1.5	Feb	10.4	Mar§	10.6
Italy	+ 0.1	Q4	nil	+ 1.1	+ 1.8	+ 0.3	Jan	– 0.7	Jan	8.4	Oct	8.9
Japan	+ 3.4	Q4	+ 6.4	+ 3.2	+ 2.0	+ 6.9	Feb	+ 1.5	Jan	5.0	Feb	5.3
Netherlands	– 0.5	Q4	+ 1.2	+ 0.9	+ 1.7	– 2.0	Feb	– 6.3	Dec†	6.2	Feb**	4.6
Spain	+ 2.7	Q4	+ 3.0	+ 2.8	+ 2.9	+ 2.0	Feb	+ 4.4	Feb	11.2	Feb	11.4
Sweden	+ 1.9	Q4	+ 2.2	+ 2.4	+ 2.4	+ 5.2	Jan	+ 7.4	Feb	6.0	Feb†	4.5
Switzerland	nil	Q4	+ 1.8	+ 1.6	+ 1.8	+ 1.7	Q4	+ 3.1	Jan	4.2	Feb†	3.6
United States	+ 4.3	Q4	+ 4.1	+ 4.7	+ 3.6	+ 2.7	Feb	+ 9.1	Feb	5.7	Mar	5.8
Euro area	+ 0.6	Q4	+ 1.2	+ 1.6	+ 2.0	+ 0.6	Jan	+ 0.5	Feb	8.8	Feb	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q4	+ 1.1	na	na	– 3.2	Feb	+ 7.3	Jan	9.0	Feb†	9.0
Greece	+ 5.0	Q4	na	na	na	+ 0.1	Jan	+ 1.3	Dec	na		na
Iceland	+ 4.9	Q4	na	na	na	– 0.3	2002	na		3.4	Dec†	3.0
Ireland	+ 2.7	Q4	na	na	na	+ 8.4	Jan	+ 0.3	Jan	4.6	Mar	4.3
Luxembourg	+ 1.3	2002	na	na	na	– 1.2	Dec	+ 4.1	Nov	4.4	Feb	3.8
New Zealand	+ 3.2	Q4	+ 2.4	na	na	+ 4.1	Q3	+ 6.0	Q4	4.6	Q4	4.9
Norway	+ 0.5	Q4	+ 2.4	na	na	+ 0.5	Jan	+ 2.6	Feb	4.2	Q4	3.7
Portugal	– 0.5	Q4	– 1.0	na	na	– 3.0	Jan	+ 0.6	Feb	6.6	Q4†	6.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Nov-Jan; claimant count rate 2.9% in Feb. §EU harmonised rate 9.3% in Mar. **Dec-Feb.

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Prices and wages

Apr 7th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.4	Q4	+ 3.0	+ 2.2	+ 2.6	– 1.1	Q4	+ 1.6	+ 5.9	Q4	+ 3.9
Austria	+ 1.4	Feb	+ 1.7	+ 1.2	+ 1.3	+ 3.0	Mar	+ 2.0	+ 2.2	Feb	+ 2.2
Belgium	+ 1.1	Mar	+ 1.8	+ 1.4	+ 1.5	+ 1.4	Feb	+ 0.4	+ 1.9	Q1	+ 2.4
Britain	+ 1.3	Feb*	+ 1.6	+ 1.5	+ 1.8	+ 1.6	Feb	+ 1.5	+ 4.4	Jan	+ 3.7
Canada	+ 0.7	Feb	+ 4.6	+ 1.5	+ 2.0	– 2.5	Feb	+ 2.8	+ 4.0	Jan	+ 1.8
Denmark	+ 0.9	Feb	+ 2.9	+ 1.4	+ 2.0	– 0.1	Feb	+ 1.7	+ 3.7	Q4	+ 3.9
France	+ 1.8	Feb	+ 2.6	+ 1.8	+ 1.6	– 0.1	Feb	+ 2.2	+ 2.7	Q4	+ 3.5
Germany	+ 1.1	Mar	+ 1.2	+ 1.1	+ 1.1	+ 0.1	Feb	+ 1.6	+ 1.9	Jan	+ 2.5
Italy	+ 2.3	Mar	+ 2.7	+ 2.1	+ 2.1	nil	Feb	+ 2.8	+ 2.8	Feb	+ 2.2
Japan	nil	Feb	– 0.2	– 0.2	nil	nil	Feb	– 0.8	+ 2.0	Feb	+ 1.9
Netherlands	+ 1.2	Feb	+ 2.4	+ 1.4	+ 1.3	+ 0.6	Dec	+ 4.2	+ 2.0	Feb	+ 3.3
Spain	+ 2.1	Feb	+ 3.7	+ 2.3	+ 2.4	+ 0.7	Feb	+ 2.9	+ 3.3	Q4	+ 3.9
Sweden	– 0.3	Feb	+ 3.4	+ 0.9	+ 1.7	– 2.3	Feb	+ 0.6	+ 2.7	Dec	+ 4.0
Switzerland	– 0.1	Mar	+ 1.3	+ 0.4	+ 0.8	– 0.1	Feb	nil	+ 1.8	2002	+ 2.5
United States	+ 1.7	Feb	+ 3.0	+ 1.8	+ 1.8	+ 3.3	Jan	+ 2.5	+ 1.8	Mar	+ 3.2
Euro area	+ 1.6	Mar	+ 2.4	+ 1.7	+ 1.6	nil	Feb	+ 2.6	+ 2.5	Q4	+ 3.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.1	Feb	+ 1.9	na	na	– 1.8	Feb	+ 2.3	+ 3.7	Q4	+ 4.1
Greece	+ 2.5	Feb	+ 4.3	na	na	+ 1.4	Feb	+ 2.7	na		na
Iceland	+ 1.8	Mar	+ 2.2	na	na	+ 2.6	Mar	+ 3.3	+ 3.3	Feb	+ 5.6
Ireland	+ 1.7	Feb	+ 5.1	na	na	– 6.6	Feb	– 7.1	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.0	Feb	+ 2.5	na	na	+ 0.1	Dec	+ 1.3	– 0.4	Dec	+ 0.7
New Zealand	+ 1.6	Q4	+ 2.7	na	na	– 0.1	Q4	– 1.4	+ 2.3	Q4	+ 2.1
Norway	– 1.7	Feb	+ 4.8	na	na	– 1.3	Feb	+11.9	+ 3.9	Q4	+ 5.2
Portugal	+ 2.1	Feb	+ 4.2	na	na	– 0.5	Feb	+ 3.0	– 2.6	Dec	+ 0.4

*New series. RPI inflation rate in February: 2.5%.

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Economic forecasts

Apr 7th 2004
From The Economist print edition

The Economist poll of forecasters, April averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2004	2005	2004	2005	2004	2005	2004	2005
Australia	3.2/4.3	2.6/3.7	3.9 (3.7)	3.1 (3.3)	2.2	2.6	−5.2(−5.1)	−4.6 (−4.5)
Austria	1.3/2.0	1.8/2.3	1.6 (1.8)	2.0 (2.1)	1.2 (1.1)	1.3 (1.4)	−0.3(−0.2)	−0.5 (−0.3)
Belgium	1.5/2.1	1.3/2.6	1.8	2.0 (2.1)	1.4	1.5 (1.6)	4.2 (4.1)	4.1 (4.2)
Britain	2.6/3.8	2.0/3.3	3.2 (3.0)	2.6 (2.5)	1.5	1.8	−2.5(−2.4)	−2.6 (−2.3)
Canada	1.8/3.9	2.6/4.3	2.8 (3.0)	3.3 (3.2)	1.5	2.0	1.6 (1.4)	1.1 (1.0)
Denmark	1.2/2.2	1.4/2.7	1.8 (2.0)	2.2 (2.3)	1.4 (1.5)	2.0	2.7 (2.6)	2.7 (2.6)
France	1.5/2.1	1.4/2.7	1.8 (1.9)	2.1 (2.2)	1.8	1.6	1.2	1.0 (1.2)
Germany	1.0/1.9	1.0/2.0	1.4 (1.6)	1.7 (1.8)	1.1 (1.0)	1.1	2.4 (2.5)	2.3 (2.4)
Italy	0.7/2.1	0.9/2.4	1.1 (1.6)	1.8 (2.0)	2.1 (2.3)	2.1	−1.0	−1.0 (−0.8)
Japan	2.6/4.0	1.0/3.6	3.2 (2.6)	2.0 (1.8)	−0.2	nil	3.2 (3.0)	3.2 (2.9)
Netherlands	0.2/1.4	0.9/2.4	0.9 (1.0)	1.7 (1.9)	1.4 (1.5)	1.3 (1.4)	2.8 (3.2)	3.0 (3.4)
Spain	2.4/3.3	2.5/3.2	2.8 (2.9)	2.9	2.3 (2.5)	2.4 (2.5)	−2.8(−2.5)	−2.7 (−2.6)
Sweden	1.8/2.7	1.6/3.5	2.4 (2.5)	2.4 (2.6)	0.9 (1.4)	1.7 (1.9)	5.6 (4.8)	5.3 (4.5)
Switzerland	0.8/2.1	1.3/2.2	1.6	1.8 (1.9)	0.4 (0.5)	0.8 (0.9)	10.3(10.6)	10.1 (10.6)
United States	3.9/5.2	3.1/4.5	4.7	3.6 (3.5)	1.8 (1.5)	1.8	−5.1	−5.0 (−4.9)
Euro area	1.2/2.2	1.4/2.6	1.6 (1.8)	2.0 (2.2)	1.7	1.6	0.5 (0.7)	0.4 (0.6)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month *The Economist* calculates the average of a group of forecasters' predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel has become more optimistic about the outlook for Japan, which it now expects to grow by 3.2% this year, up from 2.6% a month ago; and by 2.0% in 2005, up from 1.8% in March. However, it has become more pessimistic about the prospects for recovery in the euro area, forecast to grow by 1.6% in 2004, down from March's forecast of 1.8%; and by 2.0% in 2005, down from March's 2.2%. Britain, which remains outside the euro, is now expected to grow by 3.2% in 2004 and by 2.6% in 2005, up from March's forecasts of 3.0% and 2.5%.

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Money and interest rates

Apr 7th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Apr 6th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+10.6	+14.0	Feb	5.55	4.80	5.28	5.49§	5.34	6.66
Britain	+ 6.8	+ 8.1	Feb	4.31	3.56	4.54	4.74§	4.46	5.70
Canada	+10.3	+ 9.4	Feb	2.03	3.18	2.68	4.30§	5.13	5.85
Denmark	+ 6.2	+ 6.6	Feb	2.25	2.75	2.41	4.03§	4.41	5.29
Japan	+ 4.3	+ 1.7	Feb	0.03	0.02	0.12	1.44§	0.68	1.60
Sweden	+ 1.0	+ 4.2	Feb	2.12	3.39	2.71	4.18§	4.73	2.76
Switzerland	+24.0	+ 7.8	Feb	0.27	0.30	0.91	2.62	2.53	2.27
United States	+ 6.4	+ 4.0	Feb	1.07	1.19	1.89	3.83§	3.90	5.76
Euro area†	+10.7	+ 6.3	Feb	2.05	2.52	2.31	3.88§	4.17	3.87

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. §Mar 31st. Benchmarks: US 30-year 5.01%, Japan No. 258 1.53%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.0%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 7th 2004
From The Economist print edition

1995=100

	Mar 30th	Apr 5th*	% change on one month	% change on one year
Dollar index				
All items	99.8	100.7	+ 4.9	+32.8
Food	98.1	99.2	+ 5.9	+27.3
Industrials				
All	102.1	102.7	+ 3.6	+40.9
Nfa†	96.8	95.9	– 1.0	+22.6
Metals	106.7	108.4	+ 7.4	+58.5
Sterling index				
All items	86.2	87.5	+ 6.2	+13.4
Euro index				
All items	107.8	110.2	+ 8.3	+18.0
Yen index				
All items	112.3	112.7	– 0.7	+16.6
Gold				
$ per oz	420.75	417.25	+ 3.9	+29.3
West Texas Intermediate				
$ per barrel	36.20	34.36	– 5.3	+22.6

* Provisional. † Non-food agriculturals.

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Stockmarkets

Apr 7th 2004
From The Economist print edition

Market indices

	Apr 6th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,456.0	3,456.0	3,274.9	+ 1.1	nil	+ 4.5	+ 5.6
Austria (ATX)	1,941.1	1,945.8	1,568.9	+ 4.7	- 0.2	+25.6	+20.1
Belgium (Bel 20)	2,453.9	2,517.3	2,244.2	+ 3.6	-33.4	+ 9.3	+ 4.5
Britain (FTSE 100)	4,472.8	4,559.1	4,309.4	+ 1.4	-35.5	- 0.1	+ 2.3
Canada (Toronto Composite)	8,585.9	8,874.7	8,220.9	- 2.8	-24.6	+ 4.4	+ 3.0
Denmark (KBX)	230.6	241.3	219.0	+ 1.2	-23.6	+ 8.0	+ 3.2
France (SBF 250)	2,562.7	2,594.4	2,411.5	+ 3.1	-41.6	+ 6.3	+ 1.6
(CAC 40)	3,746.1	3,785.4	3,518.5	+ 3.5	-45.9	+ 5.3	+ 0.7
Germany (DAX)	4,022.8	4,151.8	3,726.1	+ 3.8	-50.1	+ 1.5	- 3.0
Italy (BCI)	1,311.4	1,325.5	1,239.5	+ 2.9	-39.9	+ 4.4	- 0.2
Japan (Nikkei 225)	12,079.7	12,079.7	10,365.4	+ 3.3	-69.0	+13.1	+14.2
(Topix)	1,209.4	1,209.4	1,022.6	+ 2.9	-58.1	+15.9	+16.9
Netherlands (AEX)	349.7	364.8	326.3	+ 2.9	-50.2	+ 3.6	- 1.0
Spain (Madrid SE)	865.8	875.0	808.3	+ 3.1	-24.5	+ 7.2	+ 2.5
Sweden (Affarsvarlden Gen)	210.8	218.1	188.5	+ 3.9	-47.3	+11.9	+ 5.4
Switzerland (Swiss Market)	5,767.3	5,934.4	5,469.0	+ 2.6	-31.4	+ 5.1	+ 0.2
United States (DJIA)	10,357.7	10,737.7	10,048.2	- 2.0	-11.6	- 0.9	- 0.9
(S&P 500)	1,126.2	1,157.8	1,091.3	- 1.9	-26.3	+ 1.3	+ 1.3
(NASDAQ Comp)	1,994.2	2,153.8	1,901.8	- 3.2	-60.5	- 0.5	- 0.5
Europe (FTSE Eurotop 300)*	1,012.7	1,026.2	957.9	+ 2.9	-40.6	+ 5.7	+ 1.1
Euro area (FTSE Ebloc 100)*	864.3	888.3	815.4	+ 2.8	-44.3	+ 3.9	- 0.6
World (MSCI)†	1,077.1	1,085.8	1,025.9	+ 0.1	-25.7	+ 3.9	+ 3.9
World bond market (Citigroup)‡	601.0	619.5	595.1	nil	- 3.0	- 0.4	- 0.4

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Apr 7th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 Apr 6th	year ago	Currency units per $ Apr 6th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 15.9	Feb	− 30.0	Q4	− 5.2	− 4.6	89.2	78.0	1.31	1.66	2.41	1.58	1.24	0.5
Austria	− 1.2	Dec	− 1.5	Jan	− 0.3	− 0.5	103.4§	101.6	0.83	0.94	1.52	–	0.78	-1.2
Belgium	+ 19.3	Jan	+ 8.0	Dec	+ 4.2	+ 4.1	103.8§	101.4	0.83	0.94	1.52	–	0.78	nil
Britain	− 79.8	Jan	− 30.8	Q4	− 2.5	− 2.6	106.4	99.7	0.55	0.64	–	0.66	0.51	-2.9
Canada	+ 43.5	Jan	+ 18.5	Q4	+ 1.6	+ 1.1	88.0	80.3	1.31	1.47	2.40	1.58	1.23	0.7
Denmark	+ 9.6	Jan	+ 6.6	Jan	+ 2.7	+ 2.7	105.9	105.2	6.18	6.95	11.3	7.45	5.81	1.0
France	+ 2.5	Jan	+ 16.7	Jan	+ 1.2	+ 1.0	107.4§	104.5	0.83	0.94	1.52	–	0.78	-3.7
Germany	+152.8	Jan	+ 57.1	Jan	+ 2.4	+ 2.3	105.2§	101.7	0.83	0.94	1.52	–	0.78	-3.7
Italy	+ 1.2	Jan	− 21.6	Jan	− 1.0	− 1.0	76.6§	74.5	0.83	0.94	1.52	–	0.78	-2.9
Japan	+110.2	Jan	+142.3	Jan	+ 3.2	+ 3.2	139.0	129.9	106	121	195	128	–	-6.8
Netherlands	+ 31.9	Jan	+ 14.4	Q4	+ 2.8	+ 3.0	103.4§	100.6	0.83	0.94	1.52	–	0.78	-2.5
Spain	− 53.5	Jan	− 25.0	Dec	− 2.8	− 2.7	77.7§	75.9	0.83	0.94	1.52	–	0.78	0.2
Sweden	+ 20.1	Feb	+ 18.9	Q4	+ 5.6	+ 5.3	80.1	79.6	7.64	8.55	14.0	9.21	7.19	0.5
Switzerland	+ 7.3	Feb	+ 29.4	Q3	+10.3	+10.1	110.2	115.0	1.30	1.39	2.38	1.56	1.22	na
United States	−552.7	Jan	−540.9	Q4	− 5.1	− 5.0	96.0	108.6	–	–	1.83	1.21	0.94	-5.1
Euro area	+ 87.1	Jan	+ 32.4	Jan	+ 0.5	+ 0.4	89.2	87.0	0.83	0.94	1.52	–	0.78	-2.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.4	Jan	+ 9.6	Jan	na	na	82.7§	80.3	0.83	0.94	1.52	–	0.78	1.9
Greece	− 25.9	Jan	− 11.0	Jan	na	na	59.9§	58.7	0.83	0.94	1.52	–	0.78	-1.6
Iceland	− 0.3	Feb	− 0.6	Q4	na	na	93.5**	92.9	72.3	78.1	132	87.2	68.1	0.2
Ireland	+ 39.8	Jan	− 3.0	Q4	na	na	95.8§	91.6	0.83	0.94	1.52	–	0.78	-1.3
Luxembourg	− 3.5	Jan	+ 2.5	Q4	na	na	103.8§	101.4	0.83	0.94	1.52	–	0.78	-1.8
New Zealand	− 2.1	Feb	− 3.5	Q4	na	na	102.5	96.2	1.53	1.83	2.80	1.85	1.44	2.2
Norway	+ 27.8	Feb	+ 30.1	Jan	na	na	95.4	102.0	6.95	7.28	12.7	8.38	6.54	9.7
Portugal	− 13.7	Dec	− 8.0	Jan	na	na	93.4**	91.3	0.83	0.94	1.52	–	0.78	-3.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD forecast. **IMF, November average.

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Top exporters

Apr 7th 2004
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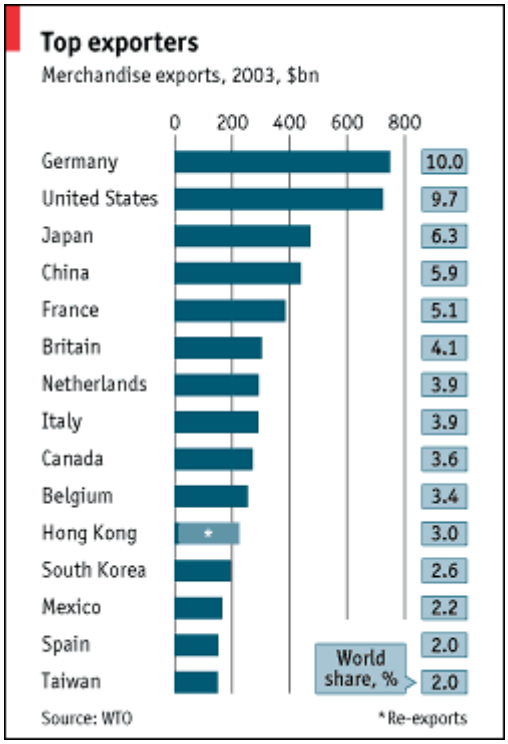

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Overview

Apr 7th 2004
From The Economist print edition

Two of central Europe's biggest emerging economies are perking up on the eve of their accession to the European Union. **Poland's** GDP grew by 4.7% in the year to the fourth quarter, up from 4.0% in the year to the third quarter. Industrial production in Poland rose by 18.4% in the year to February. **Hungary's** economy grew by an upwardly-revised 3.6% in the year to the fourth quarter.

Consumer-price inflation in **Turkey** fell to 11.8% in the year to March, from 14.3% in the year to February.

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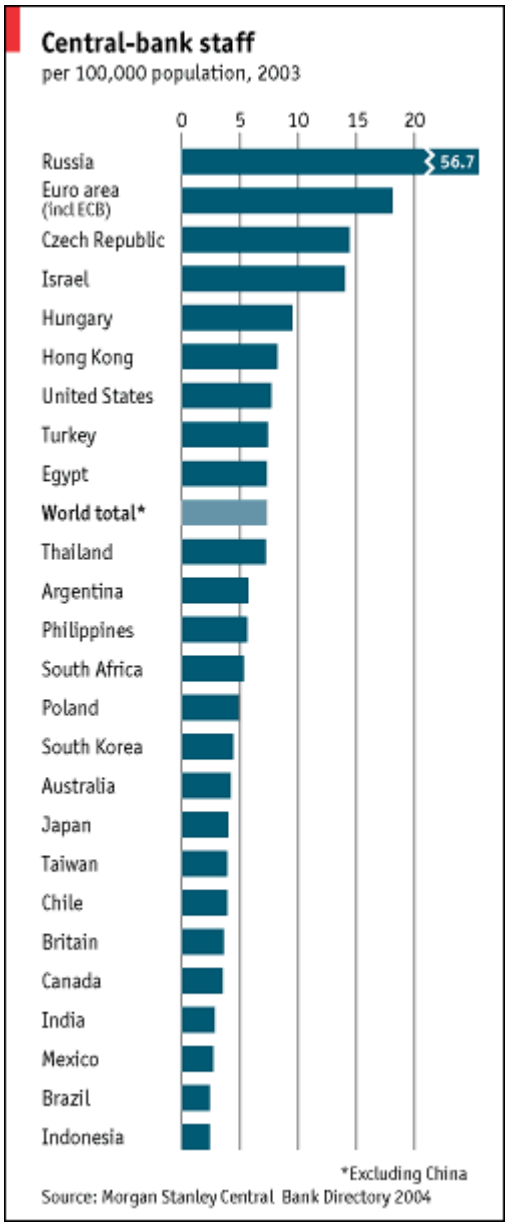
Central-bank staff

Apr 7th 2004
From The Economist print edition

About 360,000 people work for more than 160 central banks round the world. But quantity is no guarantee of quality. Over a fifth—82,000—of the world's central bankers work in Russia, where consumer prices are rising by 10.5% a year. Some 55,000 central bankers are employed in the euro area. That is over twice as many per head of population as in the United States. Japan gets by with a mere 5,127 central bankers.



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Economy

Apr 7th 2004
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+23.2	Feb	+ 2.1	Feb	+18.1	Feb	+35.4	2002	415.7	Jan
Hong Kong	+ 5.0	Q4	– 6.1	Q4	– 2.0	Feb	– 9.8	Feb	+17.4	Q4	123.5	Feb
India	+10.4	Q4	+ 7.4	Jan	+ 4.1	Feb	–16.4	Feb	+ 3.2	Q4	106.1	Mar
Indonesia	+ 4.3	Q4	+ 5.1	Jan	+ 5.1	Mar	+28.7	Feb	+ 7.8	Q3	34.8	Feb
Malaysia	+ 6.4	Q4	+16.7	Jan	+ 0.9	Feb	+21.1	Feb	+12.3	Q4	48.3	Feb
Philippines	+ 4.5	Q4	– 0.2	Jan	+ 3.8	Mar	– 1.9	Jan	+ 3.3	Dec	13.0	Mar
Singapore	+ 4.9	Q4	+38.3	Feb	+ 1.6	Feb	+15.8	Feb	+28.2	Q4	101.2	Feb
South Korea	+ 3.9	Q4	+16.6	Feb	+ 3.1	Mar	+24.0	Mar	+18.4	Feb	162.9	Feb
Taiwan	+ 5.2	Q4	+28.0	Feb	+ 0.9	Mar	+16.3	Feb	+28.6	Q4	226.5	Mar
Thailand	+ 7.8	Q4	+16.4	Feb	+ 2.3	Mar	+ 4.0	Feb	+ 7.9	Feb	41.9	Feb
Argentina	+11.3	Q4	+ 9.7	Feb	+ 2.3	Mar	+14.5	Feb	+ 7.9	Q4	14.9	Mar
Brazil	– 0.1	Q4	+ 1.7	Jan	+ 6.7	Feb	+27.2	Mar	+ 5.0	Feb	52.5	Feb
Chile	+ 3.3	Q4	+ 8.0	Feb	– 0.7	Mar	+ 3.5	Feb	– 0.6	Q4	16.1	Feb
Colombia	+ 4.3	Q4	+ 3.6	Dec	+ 6.2	Mar	nil	Dec	– 1.4	Q4	11.1	Jan
Mexico	+ 2.0	Q4	+ 0.8	Jan	+ 4.2	Mar	– 6.1	Feb	– 9.2	Q4	63.1	Feb
Peru	+ 3.0	Jan	+ 2.9	Jan	+ 2.8	Mar	+ 0.9	Jan	– 1.1	Q4	9.8	Feb
Venezuela	+ 9.0	Q4	+100.4	Jan	+23.6	Mar	+15.0	Q4	+ 9.6	Q4	16.0	Dec
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.0	Q4‡	+ 3.9	Q4	13.7	Jan
Israel	– 0.6	Q4	+ 3.0	Jan	– 2.5	Feb	– 6.5	Feb	– 0.2	Q4	26.2	Feb
South Africa	+ 1.5	Q4	– 1.4	Dec	+ 0.7	Feb	+ 1.9	Feb	– 1.5	Q4	8.3	Mar
Turkey	+ 6.1	Q4	+ 6.5	Jan	+11.8	Mar	–22.5	Jan	– 6.7	Dec	33.3	Feb
Czech Republic	+ 3.1	Q4	+ 3.8	Jan	+ 2.3	Feb	– 2.3	Feb	– 5.7	Q4	26.8	Feb
Hungary	+ 3.6	Q4	+ 9.9	Jan	+ 7.1	Feb	– 3.8	Jan	– 5.6	Jan	13.1	Feb
Poland	+ 4.7	Q4	+18.4	Feb	+ 1.6	Feb	– 9.7	Dec	– 4.6	Jan	36.3	Feb
Russia	+ 5.7	Q3	+ 8.7	Feb	+10.5	Mar	+60.7	Jan	+35.3	Q1	82.6	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+ 7.6	Jan	+ 0.4	Feb	– 2.0	Jan	– 1.6	Q4	1.2	Jan
Latvia	+ 7.4	Q4	+ 5.6	Jan	+ 4.3	Feb	– 2.0	Jan	– 1.0	Jan	1.4	Jan
Lithuania	+10.6	Q4	na		– 1.3	Feb	– 2.7	Jan	– 1.2	Q4	3.3	Jan
Slovakia	+ 4.7	Q4	+ 1.3	Jan	+ 8.5	Feb	– 0.5	Feb	– 0.3	Dec	11.8	Jan
Slovenia	+ 2.3	Q3	+ 3.6	Dec	+ 3.5	Mar	– 0.8	Feb‡	nil	Jan	8.5	Dec
Pakistan	+ 5.1	2003†	+ 3.5	Nov	+ 4.3	Feb	– 1.6	Mar	+ 3.6	Q4†	11.4	Feb
Saudi Arabia	+ 1.0	2002	na		+ 0.4	Feb	+42.6	2002	+11.9	2002	23.9	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Apr 7th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 6th		Dec 31st 2003	
	Apr 6th	year ago	Apr 6th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.2	na	1,864.1	+3.1	+ 18.8	+ 18.8
Hong Kong	7.80	7.80	14.3	0.14	12,887.0	+1.9	+ 2.5	+ 2.1
India	43.7	47.4	80.0	4.37	5,822.4	+5.5	– 0.3	+ 4.2
Indonesia	8,577	8,878	15,715	7.60	771.5	+5.7	+ 11.5	+ 9.5
Malaysia	3.80	3.80	6.96	3.00	884.2	–1.9	+ 11.4	+ 11.4
Philippines	56.3	52.8	103.1	9.06	1,516.8	+8.7	+ 5.2	+ 3.8
Singapore	1.68	1.78	3.08	0.75	1,881.7	+2.0	+ 6.6	+ 7.7
South Korea	1,150	1,253	2,107	3.95	906.2	+3.7	+ 11.8	+ 15.8
Taiwan	32.9	34.8	60.2	1.10	6,635.5	+2.2	+ 12.6	+ 16.3
Thailand	39.1	43.1	71.7	1.30	709.9	+9.3	– 8.1	– 6.9
Argentina	2.85	2.93	5.22	2.88	1,190.9	–0.6	+ 11.1	+ 14.4
Brazil	2.87	3.17	5.27	16.12	23,071.0	+4.7	+ 3.8	+ 4.2
Chile	604	720	1,107	1.68	7,611.6	+2.3	+ 3.7	+ 1.7
Colombia	2,663	2,939	4,880	7.81	3,397.1	+3.6	+ 45.6	+ 51.9
Mexico	11.2	10.7	20.5	5.96	10,714.3	+2.3	+ 21.8	+ 22.6
Peru	3.46	3.47	6.34	2.60	3,013.0	+0.9	+ 23.7	+ 24.0
Venezuela	3,067§	1,598	5,621	na	27,519.2	+3.6	+ 23.9	+ 15.2
Egypt	6.20	5.76	11.37	8.50	14,659.4	+3.0	+ 26.0	+ 25.2
Israel	4.53	4.64	8.29	1.15	579.2**	+3.0	+ 8.4	+ 5.2
South Africa	6.34	8.03	11.6	8.20	10,904.0	+2.8	+ 5.0	+ 10.6
Turkey	1,321,750	1,644,500	2,421,843	20.00	20,272.9	+1.2	+ 8.8	+ 15.7
Czech Republic	27.1	29.5	49.6	2.05	842.0	+2.2	+ 27.7	+ 21.1
Hungary	205	229	376	11.61	11,326.5	+2.2	+ 20.8	+ 22.1
Poland	3.92	4.05	7.17	5.64	24,559.1	+2.1	+ 18.0	+ 12.8
Russia	28.5	31.3	52.3	14.00	750.0‡	+1.9	+ 29.0	+ 32.2
EMF (MSCI)*	1.00	1.00	1.83	na	493.1	+3.5	+ 11.4	+ 11.4
EMBI+†	1.00	1.00	1.83	na	301.9	–0.6	+ 2.4	+ 2.4

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. § Floating exchange rate. **Apr 4th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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